

STERLITE TECH.

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	117
12 month price target (INR)	150
52 Week High/Low	122/53
Market cap (INR bn/USD bn)	57/0.7
Free float (%)	54.1
Avg. daily value traded (INR mn)	998.3

SHAREHOLDING PATTERN

	June-25	Mar-25	Dec-24
Promoter	44.40%	44.16%	44.17%
FII	6.74%	7.28%	8.71%
DII	11.34%	11.61%	9.43%
Pledge	0%	0%	0%

FINANCIALS

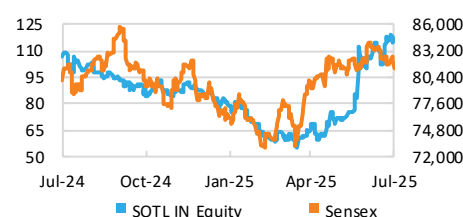
(INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Revenue	39,960	46,971	57,578	66,085
EBITDA	4,160	6,938	9,807	12,022
Adjusted profit	(720)	1,564	3,679	5,356
Diluted EPS (INR)	(1.5)	3.2	7.6	11.1
EPS growth (%)	(14.5)	nm	135.2	45.6
RoAE (%)	(6.1)	7.6	15.8	19.3
P/E (x)	nm	36.2	15.4	10.6
EV/EBITDA (x)	16.9	10.2	7.1	5.4
Dividend yield (%)	0	0	0	0

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	46,971	57,578	-3.7%	3.0%
EBITDA	6,938	9,807	-2.6%	0.0%
Adjusted profit	1,564	3,679	3.9%	6.6%
Diluted EPS (INR)	3.2	7.6	4.7%	7.5%

PRICE PERFORMANCE



Green shoots emerge in America

Sterlite Technologies (STL) reported better-than-expected Q1FY26 numbers with revenue coming in at INR10.2bn (-3.1% QoQ/+16.9% YoY), in line with our estimate of INR10.3bn. EBITDA margins came in at 13.0% (+110bp QoQ/+570bp YoY), above our estimate of 11.6%. Adjusted PAT came in at INR100mn (INR50mn in Q4FY25).

The optical fibre business in America finally rebounded as inventory correction phase is largely over. Order intake improved 2.6x compared with last quarter due to significant order inflows from top-tier North American telecom operators and three-year agreement with a leading European telecom operator. We now value STL at 9x Mar-27E EBITDA, yielding a target price of INR150 (INR105 earlier); maintain 'BUY'.

Decoding segmental performance

Revenue grew -3.1% QoQ/+16.9% YoY to INR10.2bn driven by growth in the optical business while digital business revenue stayed under pressure. Optical business grew -1.8% QoQ/+18.6% YoY on the back of higher volumes. Pressure on realisation seems to have bottomed as inventory reduction in the US market is nearly complete and realisation rates are likely to remain stable. EBITDA margins came in at 13.0% in Q1FY26, +110bp QoQ/+570bp YoY. Optical margin improved 150bp QoQ to 14.3%, led by improved utilisation rates and change in revenue mix from America geography. Data centre and enterprise suite products accounted for 23% of total optical revenue (21% in Q4FY25). Digital revenue declined -17.9% QoQ/-9.9% YoY. Digital business EBITDA margins came in at 1.6% in Q1FY26 against 6.4% in Q4FY25.

Scenario turning around in North America

Sterlite Tech's global (ex-China) OFC market share improved to 7% in Q1FY26 from 6% in Q1FY25, which management intends to improve further. Optical connectivity attach rate during Q1FY26 came in at 23% (flat YoY). Open order book was INR48.8bn (+11.6% QoQ) driven by large multi-year contracts. America's revenue contribution increased from 25% in FY25 to 31% in Q1FY26. Data centre demand is acting as a hedge, offsetting uncertainties from cyclical telcos demand and capex spends. Management indicated that pass through of tariff hikes to customers would not be an issue as customer's acceptance rate is high.

Net debt is now at INR13bn post demerger of the Global Services business. Finance cost decreased due to a reduction in debt. A further decrease in finance rate is likely as pass-through impact of lower finance cost comes with a lag. We are valuing STL at 9x Mar-27E EBITDA, yielding a TP of INR150; maintain 'BUY'.

Financials

Year to March	Q1FY26	Q1FY25	% Change	Q4FY25	% Change
Net Revenue	10,190	8,720	16.9	10,520	(3.1)
EBITDA	1,320	640	106.3	1,250	5.6
Adjusted Profit	100	(480)	(120.8)	50	100.0
Diluted EPS (INR)	0.2	(1.0)	(120.7)	0.1	100.0

Financial Statements

Income Statement (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Total operating income	39,960	46,971	57,578	66,085
Gross profit	19,950	22,966	29,306	33,636
Employee costs	6,100	6,829	7,911	9,080
Other expenses	9,690	9,199	11,588	12,534
EBITDA	4,160	6,938	9,807	12,022
Depreciation	3,160	3,255	3,391	3,380
Less: Interest expense	2,410	2,031	2,004	2,082
Add: Other income	360	424	493	582
Profit before tax	(1,560)	2,076	4,905	7,141
Prov for tax	(330)	512	1,226	1,785
Less: Other adjustment	0	0	0	0
Reported profit	(1,230)	1,564	3,679	5,356
Less: Excp.item (net)	510	0	0	0
Adjusted profit	(720)	1,564	3,679	5,356
Diluted shares o/s	486	484	484	484
Adjusted diluted EPS	(1)	3	8	11
DPS (INR)	0	0	0	0
Tax rate (%)	21.2	24.7	25.0	25.0

Important Ratios (%)

Year to March	FY25A	FY26E	FY27E	FY28E
Direct cost as % of rev	50.1	51.1	49.1	49.1
Staff cost as % of rev	15.3	14.5	13.7	13.7
Other exp as % of rev	24.2	19.6	20.1	19.0
EBITDA margin (%)	10.4	14.8	17.0	18.2
Net profit margin (%)	(1.8)	3.3	6.4	8.1
Revenue Growth (% YoY)	(2.1)	17.5	22.6	14.8
EBITDA growth (% YoY)	(12.2)	66.8	41.3	22.6
Adj. profit growth (%)	1.4	nm	135.2	45.6

Assumptions (%)

Year to March	FY25A	FY26E	FY27E	FY28E
GDP (YoY %)	6.0	6.2	6.2	6.2
Repo rate (%)	6.0	5.0	5.0	5.0
USD/INR (average)	84.0	82.0	82.0	82.0
Tax rate	21.2	24.7	25.0	25.0
Capex (INR mn)	1,220.0	5,217.8	2,500.0	3,500.0
Inventory days	142.1	120.1	119.2	121.9
Receivable days	110.7	66.8	69.2	77.7
Payable days	163.4	96.6	89.9	92.1
Cash conversion cycle days	89.4	90.3	98.5	107.5

Valuation Metrics

Year to March	FY25A	FY26E	FY27E	FY28E
Diluted P/E (x)	nm	36.2	15.4	10.6
Price/BV (x)	2.9	2.6	2.3	1.9
EV/EBITDA (x)	16.9	10.2	7.1	5.4
Dividend yield (%)	0	0	0	0

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Share capital	980	968	968	968
Reserves	18,920	20,466	24,145	29,501
Shareholders funds	19,900	21,434	25,112	30,468
Minority interest	0	0	0	0
Borrowings	18,180	18,743	19,424	20,233
Trade payables	10,280	10,907	12,629	14,647
Other liabs & prov	5,680	6,279	6,994	7,849
Total liabilities	55,270	58,716	65,652	74,847
Net block	26,710	27,710	27,189	27,620
Intangible assets	2,570	2,963	2,593	2,281
Capital WIP	230	800	800	800
Total fixed assets	29,510	31,473	30,582	30,702
Non current inv	900	900	900	900
Cash/cash equivalent	4,680	4,288	6,418	11,346
Sundry debtors	8,260	8,931	12,890	15,246
Loans & advances	0	0	0	0
Other assets	11,590	12,812	14,552	16,342
Total assets	55,270	58,716	65,652	74,847

Free Cash Flow (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Reported profit	(1,230)	1,564	3,679	5,356
Add: Depreciation	3,160	3,255	3,391	3,380
Interest (net of tax)	1,900	1,530	1,503	1,562
Others	900	501	501	521
Less: Changes in WC	(1,260)	(544)	(3,122)	(1,117)
Operating cash flow	3,470	6,306	5,952	9,701
Less: Capex	(1,220)	(5,218)	(2,500)	(3,500)
Free cash flow	2,250	1,088	3,452	6,201

Key Ratios

Year to March	FY25A	FY26E	FY27E	FY28E
RoE (%)	(6.1)	7.6	15.8	19.3
RoCE (%)	3.0	10.5	16.3	19.4
Inventory days	142	120	119	122
Receivable days	111	67	69	78
Payable days	292	161	152	153
Working cap (% sales)	8.2	8.4	12.5	12.8
Gross debt/equity (x)	0.9	0.9	0.8	0.7
Net debt/equity (x)	0.7	0.7	0.5	0.3
Interest coverage (x)	0.4	1.8	3.2	4.2

Valuation Drivers

Year to March	FY25A	FY26E	FY27E	FY28E
EPS growth (%)	(14.5)	nm	135.2	45.6
RoE (%)	(6.1)	7.6	15.8	19.3
EBITDA growth (%)	(12.2)	66.8	41.3	22.6
Payout ratio (%)	nm	0	0	0

Q1FY26 earnings call: Key highlights

Optical business

- It seems a price correction is largely behind and in short-term expecting price stability. Realisations would improve as revenue mix from America increases.
- Margin improvement was on the back of an improvement in utilization rates and change in geography mix.
- Order intake grew 3x YoY as inventory digestion in America geography is largely over. Few quantity of volumes still stay with the distributors.
- Strong order inflow is providing visibility to management in terms of revenue growth and margin improvement.
- Tariff uncertainties between the US and China are providing new opportunities for Indian fibre companies to capture growth.
- Data centre portfolio is acting as a hedge offsetting uncertainties from cyclical telcos demand and capex spends.
- Impact of tariff hikes are partially passed on to the customer as the absorption rate US customers remain healthy.
- Tariff rates may be in range of 10–20% as seen in public domains, but these are expectations and would wait for official commentary from regulations.
- In North America, witnessed strong order inflows from top tier telecom operators and other customers.
- Signed a three-year long-term supply agreement (LTSA) of IBR cables with a leading European telecom operator

Digital business

- Added 4 new logos during Q1FY26 taking the total customer count to 30.
- Have signed multimillion and multiyear contracts with couple of leading private healthcare services providers in the Middle East.
- Have set foot in life science vertical and building up few use cases.

Other commentary

- Finance cost decreased due to reduction in debt. Expects further decrease in finance rate as pass through impact of lower finance cost comes with a lag.
- As the execution of BharatNet orders starts kicking in a couple of quarters, would be able to give more information on demand trajectory.
- Net Debt / EBITDA ratio stood at 2.3x and management aims to bring this down to 2x.
- Q1 employee cost was high due to investment behind team building in US geography. Employee cost to remain in range of 10-12% for FY26E.
- Expect demerged entity equity shares to list by end of August 2025.

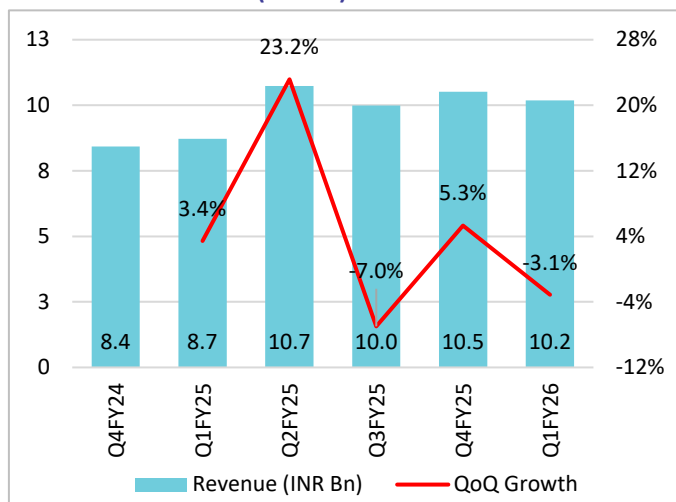
Exhibit 1: Finance snapshot (INR mn)

Year to December	Q1FY26	Q4FY25	QoQ	Q1FY25	YoY	FY25	FY26E	FY27E
Total revenues	10,190	10,520	(3.1)	8,720	16.9	39,960	46,971	57,578
Direct costs	5,130	5,730	(10.5)	3,890	31.9	20,010	24,005	28,271
Gross profit	5,060	4,790	5.6	4,830	4.8	19,950	22,966	29,306
SG&A expenses	2,180	2,120	2.8	2,550	(14.5)	9,690	9,199	11,588
EBITDA	1,320	1,250	5.6	640	106.3	4,160	6,938	9,807
Depreciation	770	790	(2.5)	780	(1.3)	3,160	3,255	3,391
EBIT	550	460	19.6	(140)	NM	1,000	3,684	6,415
Less: Interest expense	500	650	(23.1)	560	(10.7)	2,410	2,031	2,004
Other Income	80	210	(61.9)	80	0.0	360	424	493
PBT	130	20	550.0	(620)	NM	(1,050)	2,076	4,905
Provision for taxation	30	(30)	NM	(140)	NM	(330)	512	1,226
Reported profit	100	(400)	NM	(480)	NM	(1,230)	1,564	3,679
Adjusted profit	100	50	100.0	(480)	NM	(720)	1,564	3,679
as % of net revenues								
Direct costs	50.3	54.5		44.6		50.1	51.1	49.1
Gross margin	49.7	45.5		55.4		49.9	48.9	50.9
SG&A costs	21.4	20.2		29.2		24.2	19.6	20.1
EBITDA margin	13.0	11.9		7.3		10.4	14.8	17.0
EBIT margin	5.4	4.4		(1.6)		2.5	7.8	11.1
Adjusted profit	1.0	0.5		(5.5)		(1.8)	3.3	6.4

Source: Company, Nuvama Research

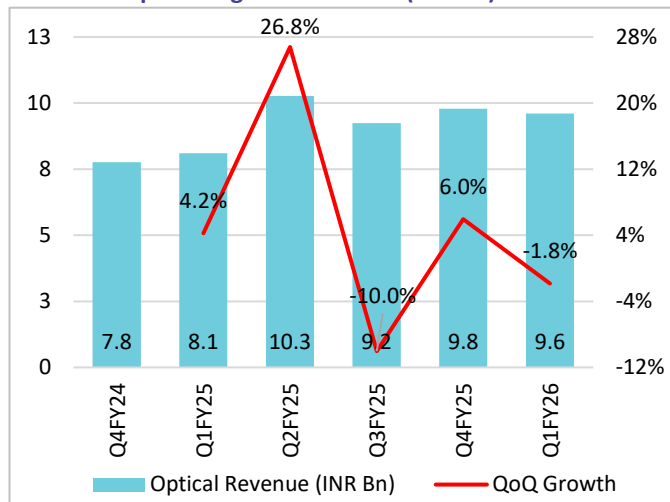
Key charts

Exhibit 1: INR revenue (INR bn)



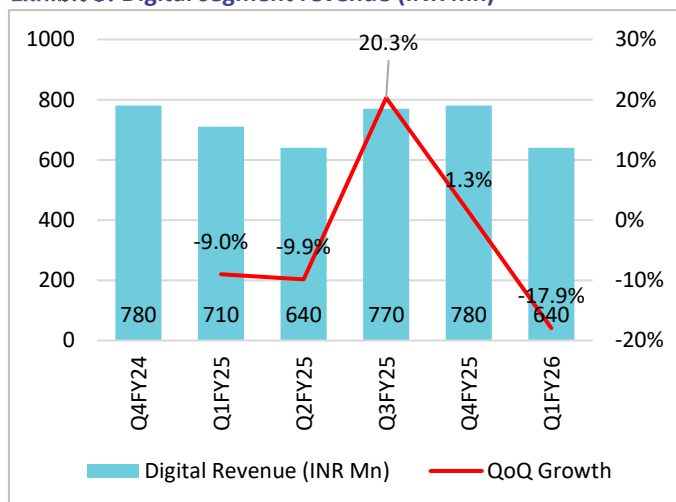
Source: Company, Nuvama Research

Exhibit 2: Optical segment revenue (INR bn)



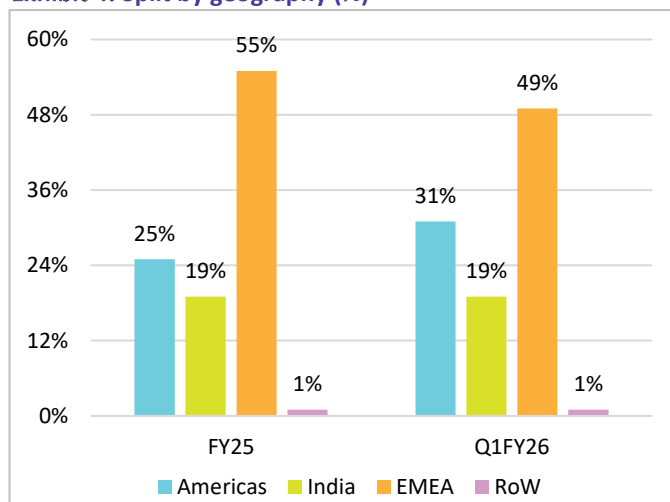
Source: Company, Nuvama Research

Exhibit 3: Digital segment revenue (INR mn)



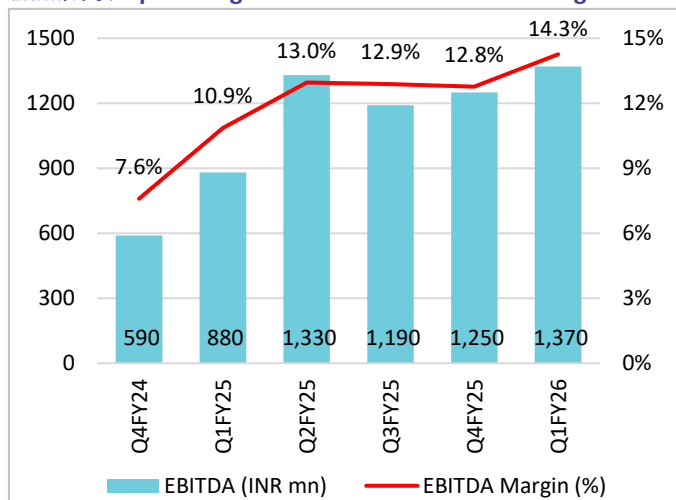
Source: Company, Nuvama Research

Exhibit 4: Split by geography (%)



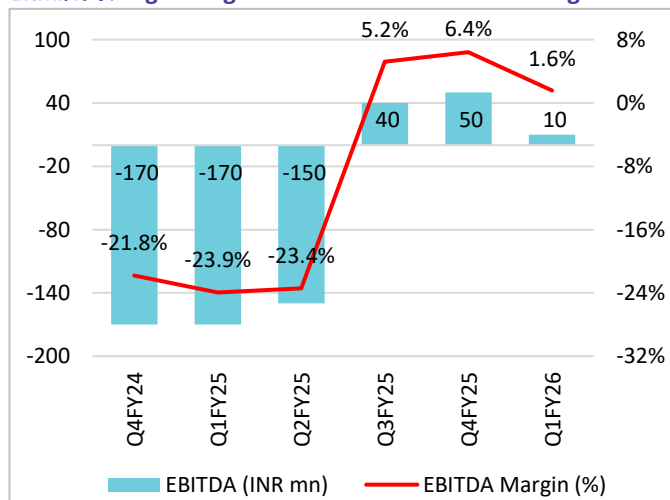
Source: Company, Nuvama Research

Exhibit 5: Optical segment EBITDA and EBITDA margin



Source: Company, Nuvama Research

Exhibit 6: Digital segment EBITDA and EBITDA margin



Source: Company, Nuvama Research

Company Description

Sterlite is India's largest and only fully integrated optical fibre cable manufacturer with OF and OFC capacity of 50mn and 42mn FKM respectively. It has manufacturing plants in Aurangabad, Silvassa, China, Brazil (through JV) and Italy. Company's offerings include optical products, system and network integration services. In services business, Sterlite has developed several network projects, such as, secure network for the armed forces, rural broadband through BharatNet, Smart Cities, and high-speed Fiber-to-the-Home (FTTH).

Investment Theme

We believe that Sterlite will be the key beneficiary of strong demand for fiber optic cables, given increasing fiberisation of towers, 5G rollout across geographies, increasing FTTH opportunity and BharatNet project. Sterlite is expected to leverage its capacity expansion with a new manufacturing plant setup in US which will drive further growth and bring down logistics costs. A superior cost structure due to integrated operations will lead to EBITDA margin expansion and improve return ratios, despite planned capex. The company is strategically expanding its portfolio of services leveraging its knowhow of complex network and relationships from the fiber business.

Key Risks

- Downturn in global economy
- Alternate connectivity technology
- Continuing raw material inflation with high gas prices
- Higher logistics costs
- Telecom capex dip

Additional Data

Management

CEO	Ankit Agarwal
CFO	Ajay Jhanjhari
Chairman	Anil Agarwal
Executive Director	Pravin Agarwal
Auditor	PWC LLP

Holdings – Top 10*

	% Holding		% Holding
Twin Star Inter	42.91	Vedanta Ltd	0.98
IDFC Mutual Fun	6.21	BalckRock Inc	0.86
HDFC AMC	3.12	Dimensional Fun	0.53
Vanguard Group	2.19	Teachers Insura	0.41
LIC	1.17	FIL Ltd	0.37

*Latest public data

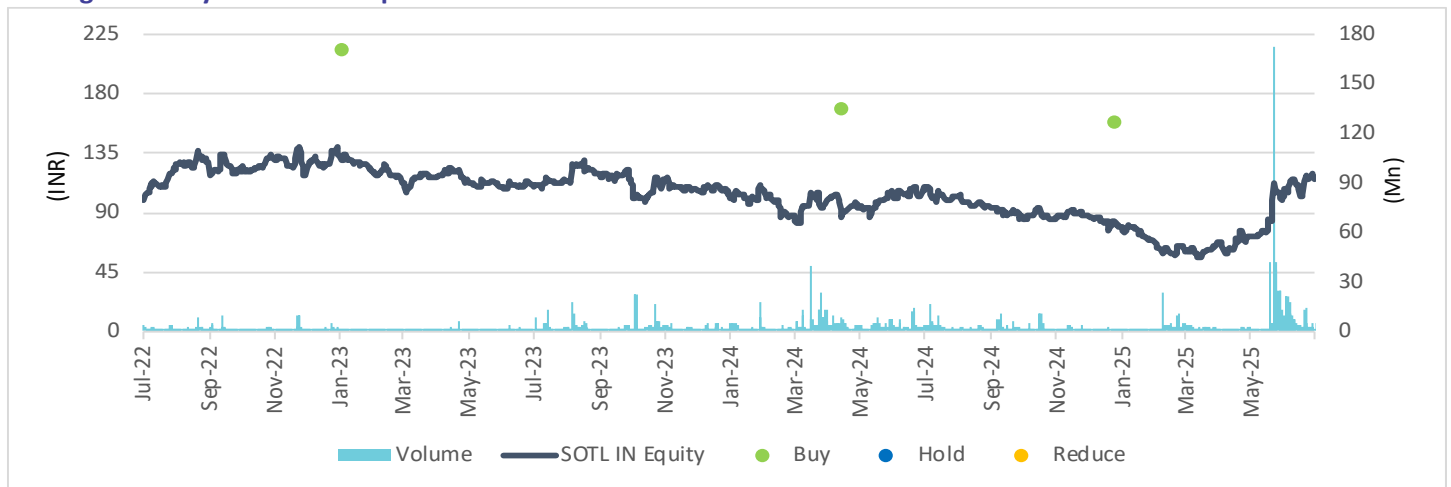
Recent Company Research

Date	Title	Price	Reco
16-May-25	Focus on optical demand recovery; <i>Result Update</i>	76	Buy
17-Jan-25	Seasonality impacts growth; <i>Result Update</i>	107	Buy
05-Nov-24	Strong growth rebound in optical fibre; <i>Result Update</i>	122	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
18-Jul-25	TATA COMM	Digital continues to report solid growth; <i>Result Update</i>
18-Jul-25	Route Mobile	Growth impacted by top client exit; <i>Result Update</i>
10-Jun-25	TATA COMM	Investor day: Monetising digital fabric; <i>Company Update</i>

Rating and Daily Volume Interpretation



Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	202
Hold	<15% and >-5%	66
Reduce	<-5%	36

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