April 30, 2024

# Sterlite Technologies Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Short term – Commercial paper** | 800.00 | 500.00 | [ICRA]A1+; reaffirmed |
| **Long term – Fund-based – Working capital** | 931.00 | 931.00 | [ICRA]AA (Negative); reaffirmed |
| **Long term – Fund-based – Term loan** | 295.00 | 95.00 | [ICRA]AA (Negative); reaffirmed |
| **Long term – Fund-based – Term loan** | 25.15 (million Euros) | 25.15 (million Euros) | [ICRA]AA (Negative); reaffirmed |
| **Short term – Non-fund based** | 3433.00 | 3433.00 | [ICRA]A1+; reaffirmed |
| **Long term/Short term – Unallocated** | 16.00 | 16.00 | [ICRA]AA (Negative)/[ICRA]A1+; reaffirmed |
| **Total** | **5475.00 + 25.15 million Euros** | **4975.00 + 25.15 million Euros** | |

**Instrument details are provided in Annexure-I*

## Rationale

The Negative outlook continues to factor in the expected pressure on Sterlite Technologies Limited's (STL) profitability in the near term because of the weakness in the North American markets, which has kept the capacity utilisation of the American facility subdued. North America had witnessed high inventory levels at the cablers. While this has started to come down, there has been a steady moderation. Moreover, while the company recently raised Rs. 1,000-crore equity which has improved the overall leverage metrics, the profitability is likely to remain subdued for at least 3-6 months, thereby not allowing the coverage indicators to expand commensurately after the equity infusion.

ICRA has also taken into account the proposed demerger of the services business, which is likely to improve the credit profile of STL. This is because the services business is a relatively low profit generating business, while its working capital intensity is on the higher side. ICRA expects the net debt/OPBDITA to remain more than 4x as on March 31, 2024; however, with this equity-raise and proposed completion of the demerger, the net debt/OPBDITA is likely to improve at a comfortable level as on March 31, 2025.

The ratings continue to factor in STL's position among the leading players in the telecom cable industry with sizeable manufacturing capacities, the integrated nature of operations and presence across the industry value chain (from preform manufacturing to software solution/network integration). These factors have enabled the company to sustain its scale of operations and a strong market position. The company had a healthy order book of Rs. 9,849 crore as of December 2023, which provides revenue visibility over the medium term. Moreover, the long-term demand outlook for STL's products is likely to remain favourable, driven by the capex by major telcos globally for 5G rollout and by domestic telcos/corporates to strengthen their network, along with Government programmes to fiberise villages in US (BEAD), India (Bharatnet Phase III), Germany and UK, among others.

Further, the expanding portfolio of the company's optical interconnect products would support revenue growth and margin expansion over the medium term, besides the increased penetration and order bookings for supplies to the US. Additionally, the ratings continue to factor in STL's geographically diversified revenue mix with sizeable revenue contribution from exports and its diverse customer base.

ICRA takes note of the successful completion of the qualified institutional placement by the company for Rs. 1,000 crore in which some marquee mutual funds participated, The proceeds of this issue have been deployed towards debt retirement, which will improve the leverage metrics in FY2025. Moreover, divestments from the non-core business, addition of higher margin products and the cost rationalisation measures undertaken by the company are expected to support its margin profile, going forward.

The ratings, however, remain constrained by the moderation in the debt coverage and profitability metrics in FY2024 with meaningful recovery only after 3-6 months. The moderation in the revenue and margin profile was led by the demand slump in the North American market due to the elevated inventory levels with cablers and higher interest rates, which resulted in a deferment of some projects and thus orders for STL. This led to lower capacity utilisation of the American facility and under-absorption of fixed costs, leading to losses for that facility. The inventory position of the cablers is expected to improve, going forward, thereby improving the company's revenues as well as profitability.

The working capital intensity remained relatively high, especially in the services segment, which coupled with elevated debt levels of around Rs. 3,700 crore as of September 2023, have resulted in a moderation of the debt metrics in FY2024. The company also faces intense competition in the telecom cable industry due to the presence of big global players with a diversified manufacturing base. In the domestic market, the revenue generation and order book remain dependent on the capex cycles of telecom service providers.

The outlook on STL's long-term rating remains Negative for the next few quarters on account of the pressure on the profitability compared to the previous years which has weakened the debt protection metrics. Therefore, improvement in profitability following the QIP would be critical to strengthen the debt coverage metrices and thus, remains a monitorable.

## Key rating drivers and their description

### Credit strengths

**Leading player in telecom cable industry -** STL is a leading player in the Indian optical fibre (OF) and optical fibre cable (OFC) market with a sizeable market share, significant manufacturing capacities and integrated nature of operations. Over the years, the company has enhanced its manufacturing capacities and widened its service offerings/geographic presence through in-house development and acquisitions globally. As a result, it has been able to develop a presence across the industry spectrum, providing products as well as end-to-end services for network integration/software solutions. STL has developed a strong global footprint in recent years and its revenue mix is fairly diversified across geographies such as India (35% in 9MFY2024), Europe (34% in 9MFY2024), America (24% in 9MFY2024) and the balance to other countries. The company is also focused on increasing its presence in the US — whose revenue contribution has increased in FY2025 and is expected to increase, going forward, post capacity expansion.

**Integrated nature of operations -** STL is a fully-integrated player with presence across the industry value chain. It manufactures glass preforms from silica, which are used to manufacture OF. Moreover, the OF is consumed internally to manufacture OFC.

**Favourable long-term demand outlook; strong order book provides revenue visibility -** STL had a healthy order book of Rs. 9,849 crore as of December 2023, which provides revenue visibility over the medium term. Moreover, the demand for STL's products/services has increased, driven by capex by major telcos globally towards 5G rollout and by domestic telcos/corporates to strengthen their network in the light of the increasing level of digitisation. This apart, large Government projects like BEAD in US and Bharatnet Phase III in India are likely to keep the demand for STL's products buoyant. Further, the expanding portfolio of optical interconnect products will drive revenue and margin over the medium term. The healthy order book and increased demand are expected to drive the company's revenue growth over the next few years.

**Diversified customer base in domestic and international markets -** STL has been able to develop a wide customer base, given its established track record of operations, diverse product/service offerings and a global footprint. This includes reputed companies, ranging from telcos and Government agencies to private organisations and cloud networking companies.

## Credit challenges

**Moderate operating margins and debt metrics -** STL's operating profit margin (OPM) stood at 12.58% in 9M FY2024 vis-à-vis 12.95% in FY2023 and remained materially lower from the average margin of ~20.5% between FY2017 to FY2020. This was on account of higher channel inventory in the North American market, increased interest rates which created pressure on demand, spike in raw material prices and logistic costs, higher operating cost incurred for new ventures as well as team expansion in the US and the UK for scaling up international operations. Moreover, the company booked lower margins in the product and services segment.

STL's debt levels increased amid the moderation in operating profitability, which weakened the debt protection metrics in FY2023 and FY2024. The company's net debt remained elevated at Rs. 3,689 crore as on September 30, 2023, mainly to fund the capex requirements in addition to the increased working capital intensity. The net debt at the end of FY2024 is estimated at Rs. 2,800-2,900 crore. The net debt has moderated after the Rs. 1,000-crore QIP and is likely to moderate further by around Rs. 400-500 crore after the hive off of the services business.

**Elongated working capital cycle -** STL's working capital intensity continued to be high owing to the elongated receivable and inventory levels. The higher gross working capital cycle was mainly because of delays in receiving payments in the services segment as the counterparties were majorly Indian PSUs. Going forward, with the demerger of the services business, around Rs. 1,000-1,100 crore of receivables will move to the demerged entity, resulting in an improvement in STL's working capital intensity, which is inherent to the products business.

**Intense competition in the industry -** The company derived ~65% of the revenues in 9M FY2024 from the export markets, where big global players have an established presence. Though STL enjoys cost-competitive manufacturing, the stiff competition limits its pricing flexibility. The company is focusing on the organic route to gain traction in new geographies and value-added services as well as mitigate pricing pressure in the relatively commoditised OF/OFC segment.

## Liquidity position: Adequate

STL's liquidity remains adequate, supported by steady internal generation, free cash/liquid investments ~Rs. 521 crore and cushion from undrawn bank lines to the extent of ~Rs. 309 crore as on December 31, 2023. The company has reduced its debt from the Rs. 1,000 crore raised through a QIP; this is expected to further improve the liquidity by increasing the cushion in unutilised bank lines.

## Rating sensitivities

**Positive factors –** Given the Negative outlook, a rating upgrade is unlikely in the near term. A favourable rating action can be taken if there is a substantial improvement in the profitability and debt coverage metrics. A specific metric for upgrade will be total debt/OPBDITA below 1.0 times and TOL/TNW below 1.5 times on a sustained basis.

**Negative factors –** A substantial decline in the operating profitability and/or any large debt-funded capex that may deteriorate the capital structure, such as the net debt/OPBDITA exceeding 2.0 times or the TOL/TNW exceeding 3.0 times, could also lead to a downgrade.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | The ratings are based on the consolidated financial profile of the company |

## About the company

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. The company has grown over the years to become the largest OF and OFC manufacturer in the country. It also has an established presence in the global OFC market. ICRA has consolidated the operational and financial profiles of STL, its subsidiaries and joint ventures for the analysis. The company, on a consolidated basis, has an OF manufacturing capacity of 50 mfkm and an OFC capacity of 37 mfkm (in the process of being enhanced to 42 mfkm).

In FY2022, the company reported a net profit of Rs. 28.8 crore on an operating income (OI) of Rs. 5,754.3 crore compared to a net profit of Rs. 254.1 crore on an OI of Rs. 4,825.2 crore in the previous year. The company has reported OI of Rs. 5,050.0 crore in 9M FY2023 with a net profit of Rs. 60.0 crore.

### Key financial indicators (audited)

| | FY2022 | FY2023 | H1FY2024 |
|---|---|---|---|
| **Operating income** | 5437.0 | 6925.0 | 3016.0 |
| **PAT** | 142.0 | 227.0 | 67.0 |
| **OPBDIT/OI** | 12.2% | 13.0% | 14.2% |
| **PAT/OI** | 2.6% | 3.3% | 2.2% |
| **Total outside liabilities/Tangible net worth (times)** | 3.3 | 3.2 | 2.9 |
| **Total debt/OPBDIT (times)** | 5.2 | 4.3 | 4.3 |
| **Interest coverage (times)** | 2.8 | 2.9 | 2.3 |

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore*

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

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

### Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2025) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as on Dec 31, 2023 (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 |
| | | | | | Apr 30, 2024 | Apr 25, 2023 | Apr 28, 2022 | Apr 29, 2021 |
| 1 | Commercial paper | Short Term | 500.00 | - | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 2 | Non-convertible debenture programme | Long term | - | - | - | - | [ICRA]AA(Negative); Withdrawn | [ICRA]AA(Stable) |
| 3 | Working capital facilities | Long term | 931.00 | - | [ICRA]AA(Negative) | [ICRA]AA(Negative) | [ICRA]AA(Negative) | [ICRA]AA(Stable) |
| 4 | Term loan | Long term | 95.00 | 86.00 | [ICRA]AA(Negative) | [ICRA]AA(Negative) | [ICRA]AA(Negative) | [ICRA]AA(Stable) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 5 | **Term loan** | Long term | 25.15* | 25.15* | **[ICRA]AA(Negative)** | **[ICRA]AA(Negative)** | **[ICRA]AA(Negative)** | **[ICRA]AA(Stable)** |
| 6 | **Non-fund based facilities** | Short Term | 3433.00 | - | **[ICRA]A1+** | **[ICRA]A1+** | **[ICRA]A1+** | **[ICRA]A1+** |
| 7 | **Unallocated limits** | Long Term/Short Term | 16.00 | - | **[ICRA]AA(Negative)/ [ICRA]A1+** | **[ICRA]AA(Negative)/ [ICRA]A1+** | **[ICRA]AA(Negative)/ [ICRA]A1+** | **[ICRA]AA(Stable)/ [ICRA]A1+** |

**million euros*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Commercial paper** | Very Simple |
| **Working capital facilities** | Simple |
| **Term loan** | Simple |
| **Term loan** | Simple |
| **Non-fund based facilities** | Very Simple |
| **Unallocated limits** | NA |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

### Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **Not placed** | **Commercial paper** | NA | NA | NA | 500.00 | [ICRA]A1+ |
| **NA** | **Working capital facilities** | NA | NA | NA | 931.00 | [ICRA]AA(Negative) |
| **NA** | **Term loan** | Jan-2014 | NA | Mar-2031 | 95.00 | [ICRA]AA(Negative) |
| **NA** | **Term loan** | December 2020 | NA | March 2027 | 25.15 million euros | [ICRA]AA(Negative) |
| **NA** | **Non-fund based facilities** | NA | NA | NA | 3433.00 | [ICRA]A1+ |
| **NA** | **Unallocated limits** | NA | NA | NA | 16.00 | [ICRA]AA(Negative)/[ICRA] A1+ |

*Source: Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

### Annexure II: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| Speedon Network Ltd | 100.00% | Full Consolidation |
| Sterlite Tele systems Ltd | 100.00% | Full Consolidation |
| Sterlite Innovative Solutions Ltd | 100.00% | Full Consolidation |
| STL Digital Ltd (Erstwhile “Sterlite Tech Connectivity Solutions Ltd”) | 100.00% | Full Consolidation |
| Sterlite Tech Cables Solutions Ltd | 100.00% | Full Consolidation |
| Sterlite Global Ventures (Mauritius) Ltd | 100.00% | Full Consolidation |
| Jiangsu Sterlite and Tongguang Fibre Co Ltd | 100.00% | Full Consolidation |
| Sterlite (Shanghai) Trading Co Ltd | 100.00% | Full Consolidation |
| Metallurgica Bresciana S.p.A. | 100.00% | Full Consolidation |
| Elite core Technologies (Mauritius) Ltd | 100.00% | Full Consolidation |
| Elite core Technologies SDN. BHD | 100.00% | Full Consolidation |
| Sterlite Technologies UK Ventures Ltd | 100.00% | Full Consolidation |
| Sterlite Tech Holding Inc. | 100.00% | Full Consolidation |
| Sterlite Technologies Inc. | 100.00% | Full Consolidation |
| Vulcan Data Centre Solutions Ltd | 80.00% | Full Consolidation |
| PT Sterlite Technologies Indonesia | 100.00% | Full Consolidation |
| Sterlite Technologies DMCC | 100.00% | Full Consolidation |
| Sterlite Technologies Pty. Ltd | 100.00% | Full Consolidation |
| STL Edge Networks Inc. | 100.00% | Full Consolidation |
| STL Networks Ltd | 100.00% | Full Consolidation |
| STL Optical Interconnect S.p.A. | 100.00% | Full Consolidation |
| Optotec S.p.A. | 100.00% | Full Consolidation |
| Optotec International S.A. | 100.00% | Full Consolidation |

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| STL Optical Tech Limited | 100.00% | Full Consolidation |
| STL Digital Inc. | 100.00% | Full Consolidation |
| STL Digital UK Limited | 100.00% | Full Consolidation |
| MB (Maanshan) Special Cables. Co. Ltd | 40.00% | Full Consolidation |
| Manshaan Metallurgica Bresciana Electrical Technology Limited | 40.00% | Equity Method |
| ASOCS | 11.71% | Equity Method |
| Sterlite Conduspar Industries Ltd | 50.00% | Equity Method |
| STL UK Holdco Limited | 100% | Full Consolidation |
| STL Solutions Germany gmbh | 100% | Full Consolidation |
| STL Networks Service Inc. US | 100% | Full Consolidation |
| STL Tech Solutions Limited | 100% | Full Consolidation |
| Clearcomm Group Limited | 80% | Full Consolidation |

*Source: Company*

## ANALYST CONTACTS


**Girishkumar Kadam**
+91 22 6114 3441
girishkumar@icraindia.com

**Prashant Vasisht**
+91 12 4454 5322
prashant.vasisht@icraindia.com

**Ankit Jain**
+91 12 4454 5865
ankit.jain@icraindia.com

**Saurabh Parikh**
+91 22 6169 3300
saurabh.parikh@icraindia.com


## RELATIONSHIP CONTACT


**L. Shivakumar**
+91 22 6114 3406
shivakumar@icraindia.com


## MEDIA AND PUBLIC RELATIONS CONTACT


**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com


## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## 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

# ICRA Limited

## Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

## Branches