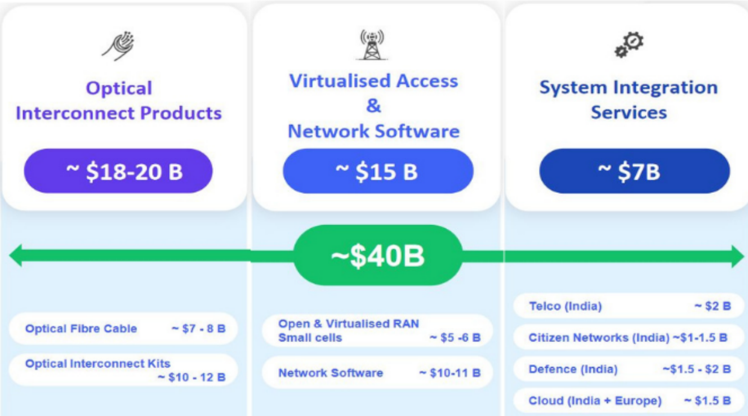
5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

STERLITE TECHNOLOGIES

WHAT WE LIKE

FROM PURE OFC PLAYER TO BUILDING DIGITAL NETWORKS
With core capabilities in **optical connectivity, network and system integration, and virtualized access solutions, STL is a leading end-to-end solutions provider for global data networks with an addressable market size of $40 bn.** It has a strong global presence with manufacturing facilities in India, Italy, China, and Brazil, along with 2 software development centers in India and 1 data center design facility in the UK.



COVID-19: AN INFLECTION POINT FOR THE DATA NETWORK INDUSTRY
COVID-19 has brought about a big change which has seen:

- Surge in traffic by **30-100%**
- Surge in **cloud demand** from enterprises
- Enterprise applications demanding **low latency** should **push demand** for data centers
- Work from home driving traffic in residential areas, leading to **rising FTTH penetration**

As an end-to-end network solutions provider, Sterlite should benefit immensely from this evolution of the data network industry.

ADVENT OF 5G
5G networks are gaining momentum throughout the world and India is no exception with 5G trials being undertaken by major network providers in India. **5G is expected to lead to a rise in demand for OFC and ORAN technology** which many international telecom giants are using 5G network setup. Sterlite is the **market leader in OFC capacity** in India and is also one of the few domestic players with **ORAN tech capabilities. Thus STL seems to be in a prime position to benefit from the 5G movement in India.**

WHAT WE DON'T LIKE

HIGHLY COMPETITIVE MARKET
Despite being the leader in the domestic market and a sizeable player in the international market, STL faces tough competition on both the domestic and international front. **However, we at SSS, believe that given the growth opportunity ahead and STL's current standing, they would be able to sail through.**

STRETCHED WORKING CAPITAL CYCLE
The WC cycle may **remain elongated** in the foreseeable future, **given the significant revenue contribution from the services business and from government projects.**
STL, however, is able to negotiate favourable terms with suppliers, leading to an increase in payable days as well. But the risk related to stretched WC persists.

HIGH DEBT ON BOOKS
From FY16 to FY21, Networth has increased from **750 Cr to 1987 Cr (around 2.65x).**

In the same period Debt has also increased from **1000 Cr to 2594 Cr** (around 2.6x)

Furthermore, the management has guided that the **debt is expected to peak in FY22** due to STL's established capex plans **before coming down from FY23 onwards.**
Moreover, the **Interest coverage ratio is at 2.86** times which does not provide much comfort.

PROMOTERS
The promoter group has a **history of dealings where the minority shareholders were not happy with the outcome.**
In the past, the promoters had also **pledged a significant portion of their holding** in the company which was taken very negatively by the market participants.
Such risks still persist with STL

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