

Data Centre can be an opportunity.

**CMP: INR 115**

**Rating: ACCUMULATE**

**Target Price: INR 134**

**Stock Info**

BSE	532374
NSE	STLTECH
Bloomberg	SOTL:IN
Reuters	STTE.NS
Sector	Cables
Face Value (INR)	2
Equity Capital (INR mn)	975
Mkt Cap (INR mn)	56,350
52w H/L (INR)	140 / 52.2
Avg Yearly Volume (in 000')	3,623

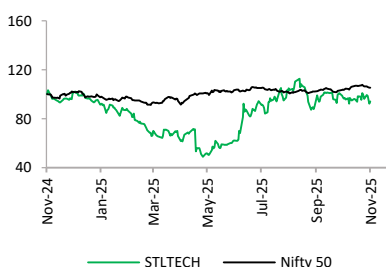
**Shareholding Pattern %**

(As on Sep, 2025)

Promoters	44.46
Public & Others	55.54

Stock Performance (%)	3m	6m	12m
STLTECH	-5.1	82.5	-6.0
NIFTY	2.9	4.4	5.3

**STLTECH vs Nifty**



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**Sterlite Technologies Ltd** reported numbers, Q2FY26 revenue de-grew by 3.7% YoY (+1.4% QoQ) to INR 10,340mn, below our estimates of INR 15,042mn. Gross Profit stood at INR 5,370mn (+1.1% YoY/+5.9% QoQ); below our estimates of INR 7,231mn. Gross margins improved by 249 bps YoY (up by 223bps QoQ) to 51.9% vs 49.4% in Q2FY25. The raw material cost in terms of sales stood at 48.1% vs 50.6% in Q2FY25. EBITDA stood at INR 1,290mn (+10.3% YoY/-2.3% QoQ), below our estimates of INR 1,664mn. EBITDA margin improved by 158bps YoY (down by 47 bps QoQ) to 12.5% vs 10.9% in Q2FY25. PAT stood at INR 40mn vs INR -170mn in Q2FY25; below our estimates of INR 276mn. PAT margin stood at 0.4% vs -1.6% in Q2FY25.

**Key Highlights**

**Optical Networking business improved on volumes:** Optical networking business revenue stood at INR 9,800mn (-4.6% YoY/+2.0% QoQ), supported by higher volumes. EBIT Stood at INR 1,360mn (+2.3% YoY/-0.7% QoQ). EBIT margin improved by 93 bps YoY (down by 38 bps QoQ) to 13.9% vs 13% in Q2FY25, led by high margin product mix and greater contribution from the US. Optical connectivity attach rate stood at 20% in H1FY26. The company is focused on being an end-to-end solutions provider rather than a fiber manufacturer.

**Digital and Technology solutions remain stable:** Digital and technology solutions revenue stood at INR 650mn (+1.6% YoY/+1.6% QoQ); EBIT Stood at INR 10mn vs INR -150mn in Q2FY25. The company added 3 new customers in Q2FY26, and the total customer base stood at 33 customers. The order book stood at INR 2.86bn, and customer additions will lead to additional orders going forward.

**Data center can be the biggest opportunity:** The data center and enterprise business share stood at 21% in Q2FY26. The major launch of the world's slimmest 864-fiber IBR cable demonstrated record speeds and marks entry into the elite league of suppliers for hyperscalers. The company is developing future-ready capabilities like Hollow-Core Fiber and AI-powered fiber sensing.

**Outlook & Valuation:** Sterlite Technologies' Optical networking business improved through capacity utilization and volumes. Data center business revenue share is around 21% in Q2FY26. The launch of the slimmest 864-fiber IBR cables recorded speeds and started supplying hyperscalers. The company is actively working on new products for data centers to capture the growing data center market. The optical interconnect attach rates stood at 20% in H1FY26, and increasing the attach rates would improve the margins. Digital and Technology solutions remain stable and are adding customers to improve business going forward. The US tariffs are around 50%, which impacted 300bps on margins in Q2FY26. The company utilizes a strategic balance between its local US manufacturing facility and imports from India to serve the US market. We anticipate that the tariff impact is expected in Q3FY26E. The successful resolution of the US-India BTA would improve the profitability going forward. We are downgrading to an "ACCUMULATE" (earlier "BUY") rating at a Target Price of INR 134 per share based on DCF, an upside of 16.3%.

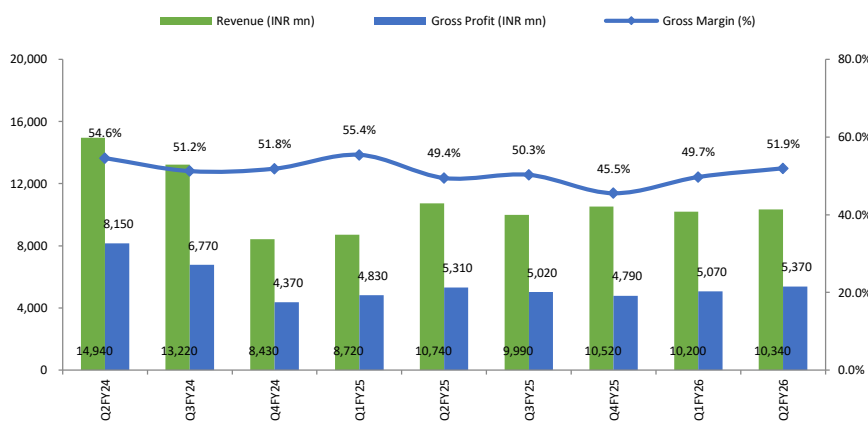
Q2FY26 Results

Income statement summary

Particular (INR mn)	Q2FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)
Revenue	10,740	10,200	10,340	-3.7%	1.4%
Net Raw Materials	5,430	5,130	4,970	-8.5%	-3.1%
<b>Gross Profit</b>	<b>5,310</b>	<b>5,070</b>	<b>5,370</b>	<b>1.1%</b>	<b>5.9%</b>
<b>Gross Margin (%)</b>	<b>49.4%</b>	<b>49.7%</b>	<b>51.9%</b>	<b>+249 bps</b>	<b>+223 bps</b>
Employee Cost	1,520	1,560	1,560		
Other Expenses	2,620	2,190	2,520		
<b>EBITDA</b>	<b>1,170</b>	<b>1,320</b>	<b>1,290</b>	<b>10.3%</b>	<b>-2.3%</b>
<b>EBITDA Margin (%)</b>	<b>10.9%</b>	<b>12.9%</b>	<b>12.5%</b>	<b>+158 bps</b>	<b>-47 bps</b>
Depreciation	790	770	800		
Interest expense	620	500	550		
Other income	20.0	80.0	120.0		
<b>Profit before tax</b>	<b>(220)</b>	<b>130</b>	<b>60</b>		
Taxes	(50)	30	20		
<b>PAT</b>	<b>(170)</b>	<b>100</b>	<b>40</b>	<b>-123.5%</b>	<b>-60.0%</b>
<b>PAT Margin (%)</b>	<b>-1.6%</b>	<b>1.0%</b>	<b>0.4%</b>	<b>+197 bps</b>	<b>-59 bps</b>
<b>EPS (INR)</b>	<b>(0.3)</b>	<b>0.2</b>	<b>0.1</b>		

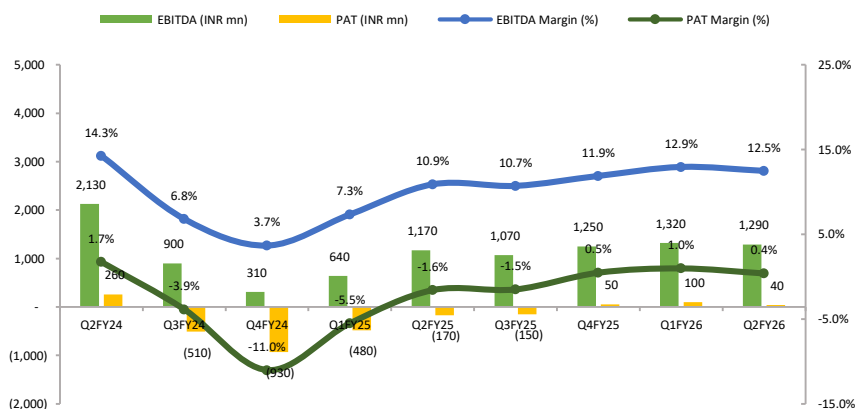
Source: Company Reports, Aриhant Capital Research

Exhibit 1: Gross margins improved by 249 bps YoY (+223 bps QoQ) to 51.9% in Q2FY26 due to lower raw material costs.



Source: Company Reports, Aриhant Capital Research

Exhibit 2: EBITDA margin improved by 158 bps YoY (-47 bps QoQ) to 12.5% in Q2FY26. however employee cost and other expenses in-terms of sales were higher and impacted margins.



Source: Company Reports, Aриhant Capital Research

## Q2FY26 Concall Highlights

### Revenue mix

- The revenue mix stood at Europe (42%), North America (33%), and RoW (25%).
- The data center business contributes 21% of revenue.

### Margins

- Operational EBITDA margin stood at 16.7% in Q2FY26. EBITDA stood at 13.6% in Q2FY26. Around 300bps margin impact due to tariffs.
- The mid-quarter tariff impositions on contracts where prices had already been fixed, forcing the company to absorb the majority of the cost increase to maintain long-term customer relationships.

### Order book

- The order book stood at INR 51.88bn as of Q2FY26. Around INR 8.2bn order is expected to be executed by Q3FY26E, and the remaining INR 43.68bn orders are scheduled post Q3FY26.
- The order momentum is broad-based, with multi-year supply agreements secured with leading European operators and a strong return of order inflows from top-tier US telecom players.

### Tariffs

- Current tariffs are 50%, which has created uncertainty. However, the US demand remains strong. The company is actively engaged in the USA-India BTA discussions and is hopeful for a resolution in Q3FY26E.
- The company utilizes a strategic balance between its local US manufacturing facility and imports from India to serve the market.

### Capex

- The capex stood at INR 800mn in H1FY26. The total capex is expected to be INR 1,150mn in FY26E. The company is focused on R&D and filling existing capacities rather than significant expansion.
- The capacity utilization rates are improving continuously.

### Debt

- Net debt stood at INR 13.33bn. Net-debt to EBITDA stood at 2.3x, and the company is focused on bringing it below 2x going forward.

### Optical networking

- The Optical networking business improved by volumes and stable pricing.

### Optical connectivity attach rate

- Optical connectivity attach rate stood at 20% in H1FY26.
- The company is focused on being an end-to-end solutions provider rather than a fiber manufacturer.

## Q2FY26 Concall Highlights

### Market share

- Global Optical Fiber market (ex-China) stood at 7% in H1FY26.

### Innovations

- The key innovation includes Stellar, a fiber compatible with legacy networks; Celesta Ribbon Cables for hyperscale data centers; and Multiverse, a multi-core fiber that multiplies capacity by 4-7 times within the same footprint.
- The major launch of the world's slimmest 864-fiber IBR cable demonstrated record speeds and marks entry into the elite league of suppliers for hyperscalers.
- The company is developing future-ready capabilities like Hollow-Core Fiber and AI-powered fiber sensing.

### STL Digital

- STL order book stood at INR 2.86bn as of Q2FY26.
- In STL Digital, the company added 3 new customers in Q2FY26, and the total customer base stood at 33 customers.
- STL Digital business achieved EBITDA breakeven in Q2FY26.

### US court verdict

- The company has a strong merit of a US court verdict. The company appealed in the court and will provide updates as the process unfolds.

### Other highlights

- The key growth drivers include FTTx rollouts, AI-led data center expansion, and 5G densification.
- The company filed 26 new patents in Q2FY26, bringing to over 750 patents.
- North America is expected to grow 12% CAGR until 2030.
- Global optical fiber demand grew 1.7% YoY in 2025.

**Outlook & Valuation:** Sterlite Technologies' Optical networking business improved through capacity utilization and volumes. Data center business revenue share is around 21% in Q2FY26. The launch of the slimmest 864-fiber IBR cables recorded speeds and started supplying hyperscalers. The company is actively working on new products for data centers to capture the growing data center market. The optical interconnect attach rates stood at 20% in H1FY26, and increasing the attach rates would improve the margins. Digital and Technology solutions remain stable and are adding customers to improve business going forward. The US tariffs are around 50%, which impacted 300bps on margins in Q2FY26. The company utilizes a strategic balance between its local US manufacturing facility and imports from India to serve the US market. We anticipate that the tariff impact is expected in Q3FY26E. The successful resolution of the US-India BTA would improve the profitability going forward. We are downgrading to an "ACCUMULATE" (earlier "BUY") rating at a Target Price of INR 134 per share based on DCF, an upside of 16.3%.

### DCF Valuation

#### Valuation Assumptions

g (World Economic Growth)	3.5%
Rf	6.5%
Rm	11%
Beta	1.1
CMP	115

#### Valuation Data

Total Debt (long term borrowings) (2024)	9,330
Cash & Cash Equivalents (2024)	4,680
Number of Diluted Shares (2024)	490
Tax Rate (2025)	25%
Interest Expense Rate (2025)	10.0%
MV of Equity	56,350
Total Debt	9,330
<b>Total Capital</b>	<b>65,680</b>

#### WACC

We	85.8%
Wd	14.2%
Ke	11.4%
Kd	7.5%
<b>WACC</b>	<b>10.9%</b>

### FCFF & Target Price

FCFF & Target Price Particular (INR mn)	Explicit Forecast Period						Linear Decline Phase					Terminal Yr
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
EBIT * (1-Tax Rate)	1,567	2,084	2,788	3,849	4,511	5,124	5,734	6,320	6,860	7,331	7,711	7,981
Dep	3,261	3,466	3,586	3,708	3,830	3,954	4,939	5,056	5,488	5,865	6,169	6,385
Purchase of Assets	(3,082)	(2,608)	(2,129)	(2,150)	(2,172)	(2,194)	(2,806)	(1,580)	(1,715)	(1,833)	(1,928)	(1,995)
Changes in Working Capital	423	(1,038)	(1,274)	(1,882)	(2,095)	(728)	(2,094)	(2,308)	(2,505)	(2,677)	(2,816)	(2,914)
FCFF	2,168	1,905	2,971	3,525	4,074	6,156	5,773	7,489	8,129	8,687	9,137	9,457
Terminal Value	2,168	1,905	2,971	3,525	4,074	6,156	5,773	7,489	8,129	8,687	9,137	
<b>Total Cash Flow</b>												1,28,065

Enterprise Value (EV)	70,168
Less: Debt	9,330
Add: Cash	4,680
Equity Value	65,518

**Equity Value per share (INR) 134**

**% Returns 16.3%**

**Rating ACCUMULATE**

### Sensitivity Analysis

		Terminal Growth (%)									
		2.5%	2.8%	3.0%	3.3%	3.5%	3.8%	4.0%	4.3%	4.5%	
WACC (%)	134	9.8%	146	150	155	160	165	171	177	184	191
	10.0%	140	144	148	152	157	162	168	174	181	
	10.3%	134	138	141	146	150	155	160	165	171	
	10.5%	129	132	135	139	143	147	152	157	162	
	10.8%	124	127	130	133	137	141	145	150	154	
	11.0%	119	122	125	128	131	135	139	143	147	
	11.3%	114	117	120	123	126	129	132	136	140	
	11.5%	110	112	115	118	121	124	127	130	134	
	11.8%	106	108	111	113	116	119	122	125	128	

Source: Company reports, Arihant Capital Research

## Financial Statements

## Income statement summary

Y/e 31 Mar (INR mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Revenue	57,543	69,250	40,830	39,960	42,414	48,372	55,300
Net Raw Materials	28,646	32,990	16,850	20,010	21,350	24,301	27,726
Employee Cost	8,707	9,120	7,160	6,100	6,212	7,036	7,988
Other Expenses	14,842	18,240	12,080	9,690	9,497	10,783	12,272
<b>EBITDA</b>	<b>5,348</b>	<b>8,900</b>	<b>4,740</b>	<b>4,160</b>	<b>5,355</b>	<b>6,253</b>	<b>7,314</b>
<b>EBITDA Margin (%)</b>	<b>9.3%</b>	<b>12.9%</b>	<b>11.6%</b>	<b>10.4%</b>	<b>12.6%</b>	<b>12.9%</b>	<b>13.2%</b>
Depreciation	(3,255)	(3,090)	(3,140)	(3,160)	(3,261)	(3,466)	(3,586)
Interest expense	(2,414)	(3,110)	(2,930)	(2,410)	(2,017)	(1,952)	(1,862)
Other income	593	410	530	360	424	484	553
<b>Profit before tax</b>	<b>482</b>	<b>3,150</b>	<b>(760)</b>	<b>(1,050)</b>	<b>502</b>	<b>1,318</b>	<b>2,419</b>
Taxes	(147)	(840)	50	330	(130)	(336)	(617)
<b>PAT</b>	<b>334</b>	<b>2,310</b>	<b>(710)</b>	<b>(720)</b>	<b>372</b>	<b>982</b>	<b>1,802</b>
<b>PAT Margin (%)</b>	<b>0.6%</b>	<b>3.3%</b>	<b>-1.7%</b>	<b>-1.8%</b>	<b>0.9%</b>	<b>2.0%</b>	<b>3.3%</b>
Other Comprehensive income	107	(140)	290	200	-	-	-
<b>Net profit</b>	<b>441</b>	<b>2,170</b>	<b>(420)</b>	<b>(520)</b>	<b>372</b>	<b>982</b>	<b>1,802</b>
EPS (INR)	0.8	5.8	(1.8)	(1.5)	0.8	2.0	3.7

Source: Company Reports, Aриhant Capital Research

## Balance sheet summary

Y/e 31 Mar (INR mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity capital	796	800	800	980	980	980	980
Reserves	18,771	20,110	19,430	18,920	19,292	20,225	21,937
<b>Net worth</b>	<b>19,567</b>	<b>20,910</b>	<b>20,230</b>	<b>19,900</b>	<b>20,272</b>	<b>21,205</b>	<b>22,917</b>
Minority Interest	857	40	-	-	-	-	-
Provisions	253	660	390	410	116	133	152
Debt	37,857	41,030	35,820	20,220	20,120	18,920	18,320
Other non-current liabilities	1,303	980	770	940	636	726	830
<b>Total Liabilities</b>	<b>59,837</b>	<b>63,620</b>	<b>57,210</b>	<b>41,470</b>	<b>41,145</b>	<b>40,983</b>	<b>42,218</b>
Fixed assets	28,554	28,540	28,390	26,710	26,179	25,296	23,818
Capital Work In Progress	1,424	1,290	620	230	582	608	629
Other Intangible assets	1,866	1,670	1,420	910	910	910	910
Goodwill	2,960	2,250	2,280	1,660	1,660	1,660	1,660
Investments	1,096	1,070	960	990	1,060	1,209	1,383
Other non current assets	1,695	1,740	3,200	1,920	1,909	2,177	2,489
<b>Net working capital</b>	<b>15,849</b>	<b>20,410</b>	<b>14,600</b>	<b>3,560</b>	<b>3,137</b>	<b>4,175</b>	<b>5,449</b>
Inventories	9,202	8,320	8,220	7,360	6,142	6,525	7,064
Sundry debtors	17,065	18,220	15,980	8,260	11,388	12,855	14,393
Loans & Advances	45	30	10	-	42	48	55
Other current assets	17,151	18,870	16,490	1,740	2,324	2,651	3,030
Sundry creditors	(24,200)	(21,520)	(21,780)	(10,280)	(14,215)	(15,001)	(15,776)
Other current liabilities & Prov	(3,413)	(3,510)	(4,320)	(3,520)	(2,545)	(2,902)	(3,318)
Cash	5,296	5,070	4,030	4,680	4,859	3,981	4,776
Other Financial Assets	1,096	1,580	1,710	810	848	967	1,106
<b>Total Assets</b>	<b>59,837</b>	<b>63,620</b>	<b>57,210</b>	<b>41,470</b>	<b>41,145</b>	<b>40,983</b>	<b>42,218</b>

Source: Company Reports, Aриhant Capital Research

## Du-Pont Analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Tax burden (x)	0.7	0.7	0.9	0.7	0.7	0.7	0.7
Interest burden (x)	0.2	0.5	(0.5)	(1.1)	0.2	0.5	0.6
EBIT margin (x)	0.0	0.1	0.0	0.0	0.0	0.1	0.1
Asset turnover (x)	0.7	0.9	0.5	0.6	0.8	0.9	1.0
Financial leverage (x)	3.9	4.0	3.9	3.2	2.6	2.6	2.5
<b>RoE (%)</b>	<b>1.7%</b>	<b>11.4%</b>	<b>-3.5%</b>	<b>-3.6%</b>	<b>1.9%</b>	<b>4.7%</b>	<b>8.2%</b>

Source: Company Reports, Aриhant Capital Research

## Financial Statements

## Cashflow summary

Y/e 31 Mar (INR mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Profit before tax	482	3,150	(760)	(1,050)	502	1,318	2,419
Depreciation	3,255	3,090	3,140	3,160	3,261	3,466	3,586
Tax paid	(147)	(840)	50	330	(130)	(336)	(617)
Working capital Δ	1,401	(4,561)	5,810	11,040	423	(1,038)	(1,274)
Change in Goodwill	(40)	710	(30)	620	-	-	-
<b>Operating cashflow</b>	<b>4,951</b>	<b>1,550</b>	<b>8,210</b>	<b>14,100</b>	<b>4,056</b>	<b>3,410</b>	<b>4,114</b>
Capital expenditure	(3,133)	(2,942)	(2,320)	(1,090)	(3,082)	(2,608)	(2,129)
<b>Free cash flow</b>	<b>1,818</b>	<b>(1,392)</b>	<b>5,890</b>	<b>13,010</b>	<b>974</b>	<b>802</b>	<b>1,985</b>
Equity raised	29	(1,584)	400	390	-	-	(0)
Investments	223	26	110	(30)	(70)	(149)	(173)
Others	(920)	(333)	(1,340)	2,690	(27)	(387)	(450)
Debt financing/disposal	2,578	3,173	(5,210)	(15,600)	(100)	(1,200)	(600)
Dividends paid	(794)	(200)	(410)	-	-	(49)	(90)
Other items	(121)	84	(480)	190	(598)	106	123
<b>Net Δ in cash</b>	<b>2,812</b>	<b>(226)</b>	<b>(1,040)</b>	<b>650</b>	<b>179</b>	<b>(877)</b>	<b>794</b>
<b>Opening Cash Flow</b>	<b>2,484</b>	<b>5,296</b>	<b>5,070</b>	<b>4,030</b>	<b>4,680</b>	<b>4,859</b>	<b>3,981</b>
<b>Closing Cash Flow</b>	<b>5,296</b>	<b>5,070</b>	<b>4,030</b>	<b>4,680</b>	<b>4,859</b>	<b>3,981</b>	<b>4,776</b>

Source: Company Reports, Arianth Capital Research

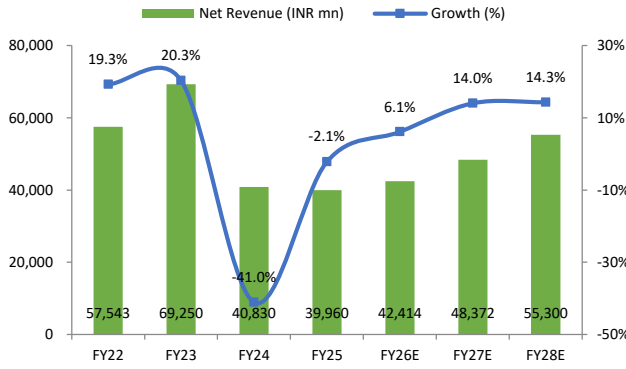
## Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Growth matrix (%)</b>							
Revenue growth	19.3%	20.3%	-41.0%	-2.1%	6.1%	14.0%	14.3%
Op profit growth	-34.0%	66.4%	-46.7%	-12.2%	28.7%	16.8%	17.0%
<b>Profitability ratios (%)</b>							
OPM	9.3%	12.9%	11.6%	10.4%	12.6%	12.9%	13.2%
Net profit margin	0.6%	3.3%	-1.7%	-1.8%	0.9%	2.0%	3.3%
RoCE	3.3%	7.6%	1.9%	4.6%	6.0%	7.8%	10.1%
RoNW	1.7%	11.4%	-3.6%	1.9%	4.7%	8.2%	12.2%
RoA	0.6%	3.6%	-1.7%	0.9%	2.4%	4.3%	6.6%
<b>Per share ratios (INR)</b>							
EPS	1.1	5.4	(1.1)	(1.1)	0.8	2.0	3.7
Dividend per share	2.0	0.5	1.0	-	-	0.1	0.2
Cash EPS	9.0	13.5	6.1	5.0	7.4	9.1	11.0
Book value per share	49.2	52.3	50.6	40.6	41.4	43.3	46.8
<b>Valuation ratios (x)</b>							
P/E	103.7	21.2	(109.5)	(108.4)	151.4	57.4	31.3
P/CEPS	12.7	8.5	18.9	23.1	15.5	12.7	10.5
P/B	2.3	2.2	2.3	2.8	2.8	2.7	2.5
EV/EBITDA	14.4	9.1	16.2	17.0	13.2	11.2	9.4
<b>Payout (%)</b>							
Dividend payout	237.5%	8.7%	-57.7%	0.0%	0.0%	5.0%	5.0%
Tax payout	30.6%	26.7%	6.6%	31.4%	25.8%	25.5%	25.5%
<b>Liquidity ratios</b>							
Debtor days	100	93	153	111	85	91	90
Inventory days	99	97	179	142	115	95	89
Creditor days	153	138	219	163	121	127	117
WC Days	46	52	113	89	79	60	62
<b>Leverage ratios (x)</b>							
Interest coverage	0.9	1.9	0.5	0.4	1.0	1.4	2.0
Net debt / equity	1.7	1.7	1.6	0.8	0.8	0.7	0.6
Net debt / op. profit	6.1	4.0	6.7	3.7	2.8	2.4	1.9

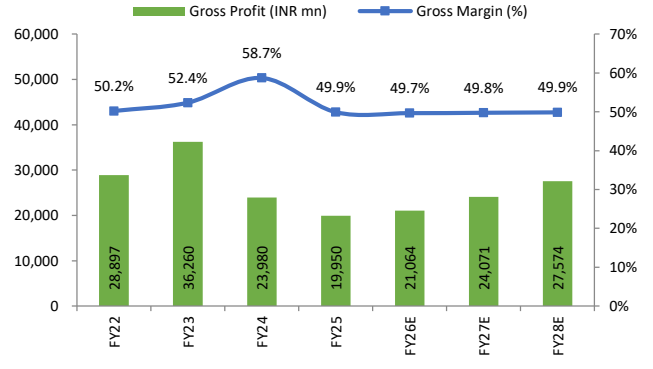
Source: Company Reports, Arianth Capital Research

Story in Charts

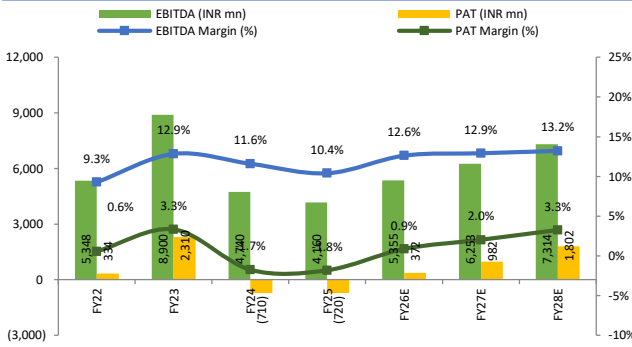
**Exhibit 3: Data centers are contributing ~20% of revenue and opportunity size is huge. Revenue is expected to grow 11.4% CAGR over the period of FY25-28E.**



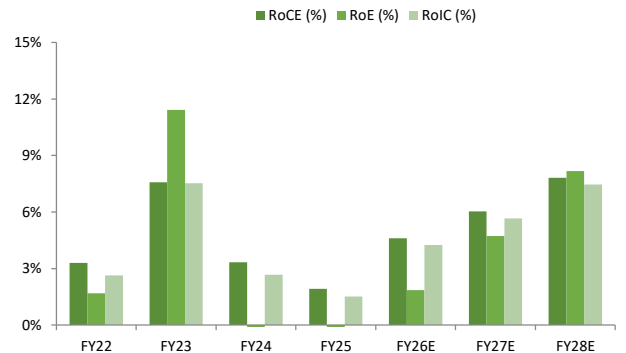
**Exhibit 4: Softening of RM costs will lead to recovery in gross margins.**



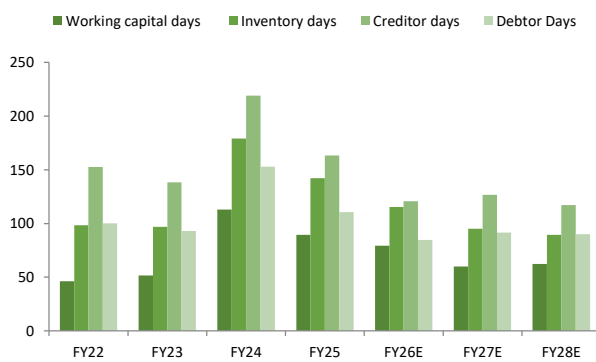
**Exhibit 5: Growth in EBITDA & PAT levels**



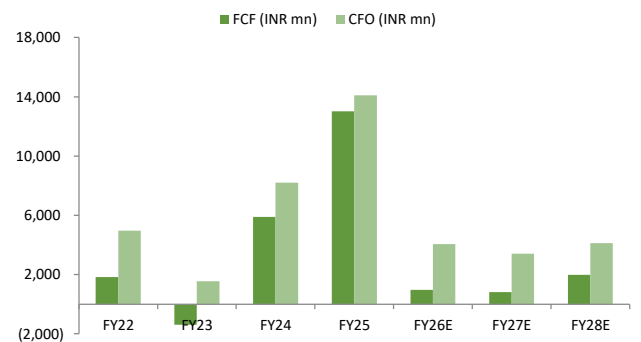
**Exhibit 6: Return ratios to be improve**



**Exhibit 7: Working capital days to be improve**



**Exhibit 8: Cash flows to be improve**



Source: Company reports, Arianth Capital Research

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BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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