

## Sterlite Industries

### Performance Highlights

| Particulars (Rs cr) | 1QFY2011 | 1QFY2010 | % chg (yoy) | 4QFY2010 | % chg (qoq) |
|---------------------|----------|----------|-------------|----------|-------------|
| Net sales           | 5,925    | 4,537    | 30.6        | 7,111    | (16.7)      |
| EBITDA              | 1,452    | 979      | 48.3        | 2,068    | (29.8)      |
| EBITDA margin(%)    | 24.5     | 21.6     | 292bp       | 29.1     | (459bp)     |
| Net profit          | 1,008    | 673      | 49.9        | 1,381    | (27.0)      |

Source: Company, Angel Research

Sterlite's 1QFY2011 net revenue stood at Rs5,925cr, below our estimates of Rs6,987cr. Net profit at Rs1,008cr was also below our estimates of Rs1,259cr. The deviation was mainly due to lower production and higher costs.

**1QFY2011 results below our estimates:** Sterlite's net revenue grew 30.6% yoy to Rs5,925cr, largely because of a) increased metal prices, b) higher zinc and silver sales and c) increased by-product realisations. On the negative side, production was affected by the planned maintenance shutdown at Tuticorin, water shortage at HZL plants and low-grade ore from Rampura Agucha mine. The company's operating profit was boosted by lower cost in the copper segment; however, it was negatively affected by a) increased staff cost (additional gratuity provision and long-term wage settlement), b) higher stripping cost and c) increased alumina, power, coal and coke costs. EBITDA margin expanded by 292bp yoy to 24.5%, which led to EBITDA growing by 48.3% to Rs1,452cr. Other income grew by 64.6% to Rs692cr, boosted by gain of Rs165cr on FCCBs, thus increasing net profit by 49.9% yoy to Rs1,008cr.

**Outlook and Valuation:** Sterlite is currently trading at 6.5x and 4.4x FY2011E and FY2012E EV/EBITDA, respectively. We believe the company is well poised to capitalise on strong metal demand through its expansion plans coupled with a reduction in operating costs. Moreover, the settlement of the Balco and Hindustan Zinc (HZL) call option and the grant of the Niyamgiri mining clearance could provide a further upside to our target price. **Hence, we maintain a Buy on the stock with a revised Target Price of Rs228 (earlier Rs245).**

#### Key Financials (Consolidated)

| Y/E March (Rs cr) | FY2009        | FY2010        | FY2011E       | FY2012E       |
|-------------------|---------------|---------------|---------------|---------------|
| <b>Net sales</b>  | <b>21,144</b> | <b>24,410</b> | <b>27,542</b> | <b>33,639</b> |
| % chg             | (14.4)        | 15.4          | 12.8          | 22.1          |
| <b>Net profit</b> | <b>3,493</b>  | <b>3,986</b>  | <b>4,799</b>  | <b>6,625</b>  |
| % chg             | (21.3)        | 14.1          | 20.4          | 38.0          |
| <b>EPS (Rs)</b>   | <b>12.3</b>   | <b>11.9</b>   | <b>14.3</b>   | <b>19.7</b>   |
| EBITDA margin (%) | 22.2          | 24.9          | 28.4          | 31.7          |
| P/E (x)           | 14.1          | 14.7          | 12.2          | 8.8           |
| P/BV (x)          | 1.8           | 1.5           | 1.3           | 1.2           |
| RoE (%)           | 14.2          | 12.0          | 11.6          | 14.2          |
| RoCE (%)          | 10.7          | 10.9          | 11.1          | 14.1          |
| EV/Sales (x)      | 2.4           | 2.1           | 1.8           | 1.4           |
| EV/EBITDA (x)     | 10.7          | 8.5           | 6.5           | 4.4           |

Source: Company, Angel Research

## BUY

|              |       |
|--------------|-------|
| CMP          | Rs174 |
| Target Price | Rs228 |

|                   |           |
|-------------------|-----------|
| Investment Period | 12 months |
|-------------------|-----------|

#### Stock Info

|                    |             |
|--------------------|-------------|
| Sector             | Base Metals |
| Market Cap (Rs cr) | 58,542      |
| Beta               | 1.7         |
| 52 Week High / Low | 232/137     |
| Avg. Daily Volume  | 685171      |
| Face Value (Rs)    | 1           |
| BSE Sensex         | 18,020      |
| Nifty              | 5,419       |
| Reuters Code       | STRL.BO     |
| Bloomberg Code     | STLT@IN     |

#### Shareholding Pattern (%)

|                         |      |
|-------------------------|------|
| Promoters               | 52.1 |
| MF / Banks / Indian Fls | 22.8 |
| FII / NRIs / OCBs       | 14.3 |
| Indian Public / Others  | 10.8 |

| Abs. (%) | 3m     | 1yr  | 3yr  |
|----------|--------|------|------|
| Sensex   | 1.5    | 17.2 | 14.2 |
| Sterlite | (17.3) | 6.7  | 5.9  |

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**Exhibit 1: 1QFY2011 performance (Consolidated)**

| Y/E March (Rs cr)               | 1QFY11       | 1QFY10       | % chg         | FY10          | FY09          | % chg        |
|---------------------------------|--------------|--------------|---------------|---------------|---------------|--------------|
| <b>Net Sales</b>                | <b>5,925</b> | <b>4,537</b> | <b>30.6</b>   | <b>24,410</b> | <b>21,144</b> | <b>15.4</b>  |
| Consumption of raw material     | 2,679        | 2,116        | 26.6          | 12,169        | 10,634        | 14.4         |
| (% of net sales)                | 45.2         | 46.6         |               | 49.9          | 50.3          |              |
| Power & fuel                    | 558          | 467          | 19.6          | 1,953         | 2,132         | (8.4)        |
| (% of net sales)                | 9.4          | 10.3         |               | 8.0           | 10.1          |              |
| Staff costs                     | 284          | 173          | 63.9          | 854           | 756           | 12.9         |
| (% of net sales)                | 4.8          | 3.8          |               | 3.5           | 3.6           |              |
| Other expenses                  | 952          | 802          | 18.6          | 3,363         | 2,918         | 15.2         |
| (% of net sales)                | 16.1         | 17.7         |               | 13.8          | 13.8          |              |
| <b>Total expenditure</b>        | <b>4,473</b> | <b>3,558</b> | <b>25.7</b>   | <b>18,339</b> | <b>16,440</b> | <b>11.5</b>  |
| (% of net sales)                | 75.5         | 78.4         |               | 75.1          | 77.8          |              |
| <b>EBITDA</b>                   | <b>1,452</b> | <b>979</b>   | <b>48.3</b>   | <b>6,072</b>  | <b>4,704</b>  | <b>29.1</b>  |
| EBITDA margin (%)               | 24.5         | 21.6         |               | 24.9          | 22.2          |              |
| Interest                        | 141          | 71           | 97.8          | 342           | 397           | (13.8)       |
| Depreciation                    | 217          | 174          | 25.0          | 750           | 701           | 7.0          |
| Other income + operating income | 737          | 420          | 75.5          | 1,959         | 2,154         | (9.0)        |
| Exceptional items               | 0            | 0            |               | (297)         | 55            |              |
| <b>Profit before tax</b>        | <b>1,831</b> | <b>1,154</b> | <b>58.6</b>   | <b>6,642</b>  | <b>5,816</b>  | <b>14.2</b>  |
| (% of net sales)                | 30.9         | 25.4         |               | 27.2          | 27.5          |              |
| Tax                             | 368          | 230          | 59.9          | 1,233         | 855           | 44.2         |
| (% of PBT)                      | 6.2          | 5.1          |               | 5.1           | 4.0           |              |
| <b>Profit after tax</b>         | <b>1,462</b> | <b>924</b>   | <b>58.3</b>   | <b>5,409</b>  | <b>4,961</b>  | <b>9.0</b>   |
| <b>Net income</b>               | <b>1,008</b> | <b>673</b>   | <b>49.9</b>   | <b>3,744</b>  | <b>3,540</b>  | <b>5.8</b>   |
| (% of net sales)                | 17.0         | 14.8         |               | 15.3          | 16.7          |              |
| <b>FDEPS (Rs)</b>               | <b>2.8</b>   | <b>8.0</b>   | <b>(64.7)</b> | <b>11.9</b>   | <b>12.3</b>   | <b>(3.8)</b> |

Source: Company, Angel Research

**Exhibit 2: 1QFY2011 - Actual vs. Angel estimates**

| (Rs cr)            | Actual | Estimates | Variation (%) |
|--------------------|--------|-----------|---------------|
| Net sales          | 5,925  | 6,987     | (15.2)        |
| EBITDA             | 1,452  | 2,103     | (31.0)        |
| EBITDA margins (%) | 24.5   | 30.1      | (560bp)       |
| PBT                | 1,831  | 2,293     | (20.2)        |
| PAT                | 1,008  | 1,259     | (19.9)        |

Source: Company, Angel Research

## Key conference call takeaways

**Details of Vedanta Aluminium (VAL) financing:** The total investment required in VAL is about Rs26,500cr, of which Rs13,400cr is through long-term debt and Rs13,100cr is via equity. Equity financing would be in the ratio of 70:30 for Vedanta PLC and Sterlite (which means that Sterlite's equity contribution would be Rs4,000cr). However, Sterlite has infused nearly Rs6,500cr in VAL till date (Rs3,000cr as equity and Rs3,500cr as debt at a market interest rate). During the quarter, VAL produced 203ktpa of alumina and reported EBITDA of Rs140cr.

**PPA not signed for VAL:** Sterlite Energy has secured coal linkages for the 2,400MW power plant at Jharsuguda with Coal India. Sterlite Energy has also entered into a long-term PPA with GridCo at Rs2.5/unit, but it is yet to finalise the PPA agreement with VAL. Management has indicated that the power would be sold to VAL at a price similar to that of Grid Co.

**Venturing into the port business:** Sterlite has entered the port business to develop a coal berth at Vizag on a revenue-sharing basis in a joint venture (JV) with Leighton Contractors (26% share). The agreement has been signed with Vizag Port Authorities and the estimated cost of the project is Rs500cr, which is likely to be completed in mid-2012. The JV company has also been awarded the Paradeep Port project for the development of multipurpose berth, the estimated cost of which is Rs400cr.

**Clearance for Niyamgiri mine still awaited:** Management indicated that it has submitted all the necessary documents required for availing forest clearance. On receipt of all the clearances, the company would take 3–6 months to start bauxite production. The mine has reserves of nearly 70mn–80mn tonnes, and the area holds potential for further exploration. In addition, the company is in dialogue with the government for allocation of new blocks.

**Balco and HZL minority stake buyout still awaited:** Management indicated that Balco's arbitration process is in its final stages, with the last round of arbitration in August 2010. However, it did not specify the time for HZL's buyout but indicated that it has entered into a mediation process. Sterlite has sufficient cash on books (Rs24,874cr) towards these buyouts.

**Cost of production:** During 1QFY2011, the cost of producing aluminium at Balco and VAL was Rs83,000/tonne and Rs86,000/tonne, respectively. The cash cost at HZL excluding royalty was Rs38,900/tonne. On account of higher stripping ratio, cost of production at HZL has increased by US \$15/tonne

## 1QFY2011 result highlights

In 1QFY2011, Sterlite's net revenue increased by 30.6% yoy to Rs5,925cr, largely because of a) increased metal prices, b) higher zinc and silver sales and c) increased by-product realisations. On the negative side, production was affected by the planned maintenance shutdown at Tuticorin, water shortage at HZL plants and low-grade ore from Rampura Agucha mine. During the quarter, the company also sold 480mn units of merchant power (287mn units in 1QFY2010) due to the closure of the Balco 1 plant. Average power realisation was lower at Rs4.98/unit (Rs5.43/unit in 1QFY2010).

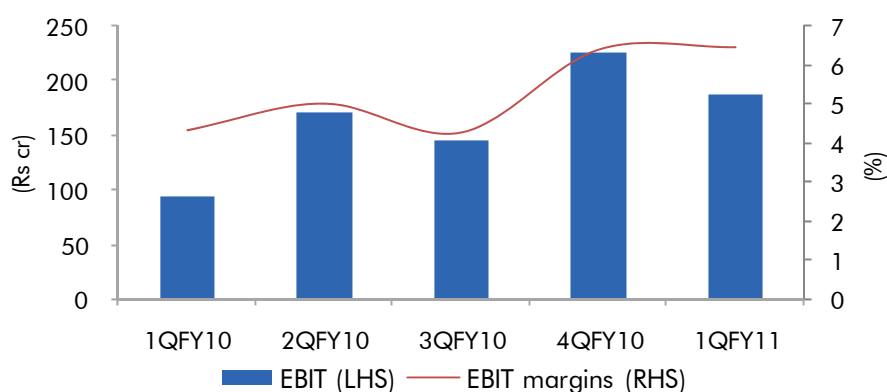
The company's operating profit was boosted by lower cost in the copper segment; however, it was negatively affected by a) increased staff cost (additional gratuity provision and long-term wage settlement), b) higher stripping cost and c) increased alumina, power, coal and coke costs. EBITDA margin expanded by 292bp yoy to 24.5%, which led to EBITDA growing by 48.3% to Rs1,452cr. Other income grew by 64.6% to Rs692cr, boosted by gain of Rs165cr on FCCBs, thus increasing net profit by 49.9% yoy to Rs1,008cr.

## Segmental performance

### Copper segment was better placed in 1QFY2011

Copper cathode production during 1QFY2011 was flat at 77,000 tonnes due to a planned maintenance shutdown at Tuticorin smelter. Mined metal from the Australian mine was 7,000 tonnes during the quarter. Revenue for the segment was Rs2,096cr, up 33.5% yoy, mainly led by higher metal prices. Moreover, owing to an improvement in copper TC/RC margins, which increased to 13.5 per US\$/lb (11.9 per US\$/lb) along with improved copper recoveries and higher byproduct realisations, the copper segment's EBIT reported 100% yoy growth. Average acid realisation during 1QFY2011 improved to Rs3,332/tonne as compared to Rs227/tonne in 1QFY2010. From 2QFY2011E, management expects acid realisations to be around Rs2000/tonne.

### Exhibit 3: Copper EBIT margins expanded by 214bp yoy

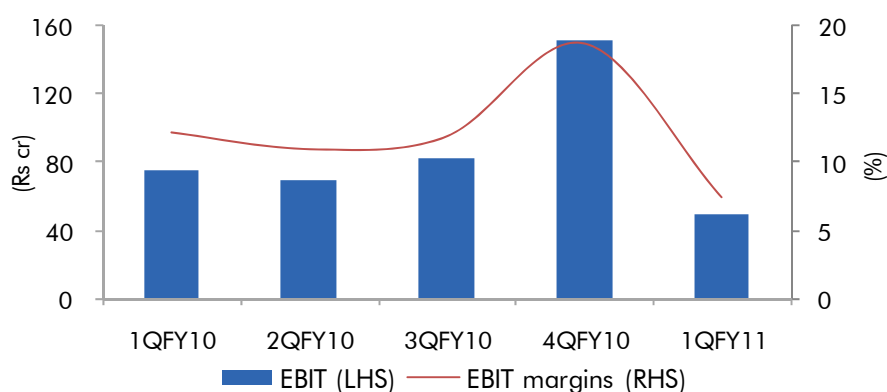


Source: Company, Angel Research

**Poor performance by the aluminium business**

Balco’s aluminium production was down 12% yoy to 63,000 tonnes, whereas production at VAL was up by 45% at 77,000 tonnes. The aluminium segment’s revenue, at Rs666cr, was up 8.3% yoy. However, profitability was affected by a) increased alumina costs, b) higher power cost, c) additional gratuity provisions and d) unabsorbed losses at Balco plant 1. Consequently, the aluminium segment’s EBIT declined by 33.8% yoy to Rs50cr.

**Exhibit 4: Aluminium EBIT margin affected by higher costs**

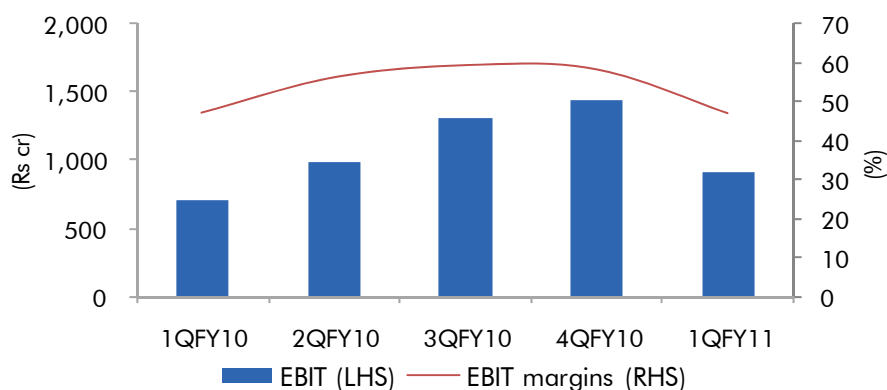


Source: Company, Angel Research

**Zinc and lead segment – Higher metal prices negate lower volumes**

Despite production being lower, revenue from the zinc and lead segments grew by 29.5% yoy to Rs1,928cr mainly on account of higher realisations and higher zinc sales on account of the commissioning of the 210ktpa zinc smelter at Rajpura Dariba during 4QFY2010, which produced 33,000 tonnes during the quarter. However, due to higher costs, EBIT margin was flat at 46.9% yoy.

**Exhibit 5: EBIT margins affected by higher stripping and staff costs**



Source: Company, Angel Research

## Expansion plans

### Aluminium

- The 325ktpa aluminium smelter project at Balco is expected to be commissioned in 4QFY2011.
- Construction of the 1,200MW captive power plant is progressing well and the first unit is expected to be commissioned in 3QFY2011, with the remaining three units to be progressively commissioned by 2QFY2012.

### Power

- The first 600MW unit of the 2400 MW (600MW x 4) coal-based commercial power plant at Jharsuguda is expected to start commercial production in September 2010. The remaining three units are expected to be progressively commissioned by the end of 1QFY2012.
- The EPC contract for the 1,980MW supercritical IPP project at Talwandi Sabo has been signed and equipment has been ordered accordingly. The first unit is expected to be commissioned by 4QFY2013 and the overall project completion is expected by 2QFY2014.

### Zinc

- The 100ktpa lead smelter at Rajpura Dariba is expected to be commissioned by 2QFY2011E.
- The 80MW captive power plant was commissioned in June 2010. The second 80MW power plant is expected to be commissioned by September 2010.
- The Sindesar Khurd mine project is on schedule with production expected to commence from 2QFY2011.

## Investment Rationale

**Robust expansion plan in metal and power:** We believe the company is well poised to capitalise on strong metal demand as it expands its zinc and lead capacity to 1.1mn tonnes and silver capacity to 500ktpa. Moreover, the company is also increasing its aluminium capacity by 325ktpa and its power capacity by 2,400MW (through its 100% subsidiary Sterlite Energy), benefits of which are likely to be witnessed in FY2012E.

**Balco and HZL minority stake buyout, clearance for Niyamgiri mine still awaited** Sterlite has been in the process of buying the minority stake in Balco and HZL. We believe any positive development on this front would provide further upside to our target price. Moreover, it has been in the process of availing mining clearances for its Niyamgiri bauxite mine which in our view would lower the cost of production at Vedanta Aluminium, thereby leading to substantial improvement in earnings.

## Valuation

Sterlite is currently trading at 6.5x and 4.4x FY2011E and FY2012E EV/EBITDA, respectively. We have revised our FY2011E and FY2012E estimates to factor in lower metal prices at LME, lower sales volume estimates and other bookkeeping changes. **We maintain a Buy on the stock with a revised Target Price of Rs228 (earlier Rs245).**

### Exhibit 6: Key assumptions

| LME prices (US \$/tonne) | FY11E   | FY12E   |
|--------------------------|---------|---------|
| Aluminium                | 2,100   | 2,100   |
| Copper                   | 6,500   | 6,500   |
| Zinc                     | 1,975   | 2,050   |
| Lead                     | 1,925   | 2,000   |
| Silver (Rs/kg)           | 25,500  | 25,500  |
| Sales volume (tonnes)    |         |         |
| Aluminium                | 297,600 | 496,000 |
| Copper                   | 348,750 | 348,750 |
| Zinc metal               | 682,100 | 747,150 |
| Lead metal               | 80,100  | 125,450 |
| Silver (kg)              | 180,000 | 270,000 |

Source: Company, Angel research

**Exhibit 7: SOTP valuation**

(Rs cr)

| Subsidiary  | Valuation method | Target multiple (x) | Equity value | % Stake | Sterlite's value | Value/share |
|---|------------------|---------------------|--------------|---------|------------------|-------------|
| Sterlite standalone (including US \$1.6bn raised) | EV/EBIDTA        | 5.5                 | 16,331       | 100%    | 16,331           | 49          |
| Balco   | EV/EBIDTA        | 7.0                 | 12,248       | 51%     | 6,246            | 19          |
| Vedanta Aluminium                                 | EV/EBIDTA        | 7.0                 | 44,094       | 29.5%   | 13,008           | 39          |
| Hindustan Zinc                                    | EV/EBIDTA        | 5.0                 | 51,835       | 64.9%   | 33,641           | 100         |
| Sterlite Energy                                   | FCFE             | 1.0                 | 6,406        | 100%    | 6,406            | 19          |
| Tasmania copper mines                             | P/BV             | 1.0                 | 1,009        | 100%    | 1,009            | 3           |
| <b>Target price (Rs)</b>                          |                  |                     |              |         |                  | <b>228</b>  |

Source: Angel Research

**Exhibit 8: Change in estimates**

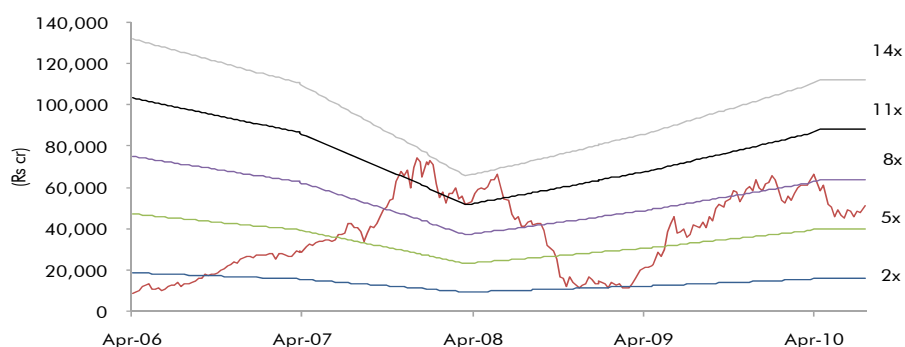
| (Rs cr)           | Earlier estimates |        | Revised estimates |        | Upgrade/(downgrade) (%) |       |
|-------------------|-------------------|--------|-------------------|--------|-------------------------|-------|
|                   | FY11E             | FY12E  | FY11E             | FY12E  | FY11E                   | FY12E |
| Net sales         | 28,845            | 32,994 | 27,542            | 33,639 | (4.5)                   | 2.0   |
| EBITDA            | 8,556             | 10,416 | 7,811             | 10,675 | (8.7)                   | 2.5   |
| EBITDA margin (%) | 29.7              | 31.6   | 28.4              | 31.7   | (134bp)                 | 13bp  |
| PBT               | 9,237             | 11,014 | 8,375             | 11,324 | (9.3)                   | 2.8   |
| Net income        | 5,749             | 6,443  | 4,799             | 6,625  | (16.5)                  | 2.8   |
| Net margin (%)    | 19.9              | 19.5   | 17.4              | 19.7   | (251bp)                 | 17bp  |
| Diluted EPS (Rs)  | 17.1              | 19.2   | 14.3              | 19.7   | 19.7                    | (2.7) |

Source: Company, Angel Research

**Exhibit 9: EPS - Angel forecast vs. consensus**

| Year (%) | Angel forecast | Bloomberg consensus | Variation (%) |
|----------|----------------|---------------------|---------------|
| FY11E    | 14.3           | 21.2                | (32.6)        |
| FY12E    | 19.7           | 25.5                | (22.7)        |

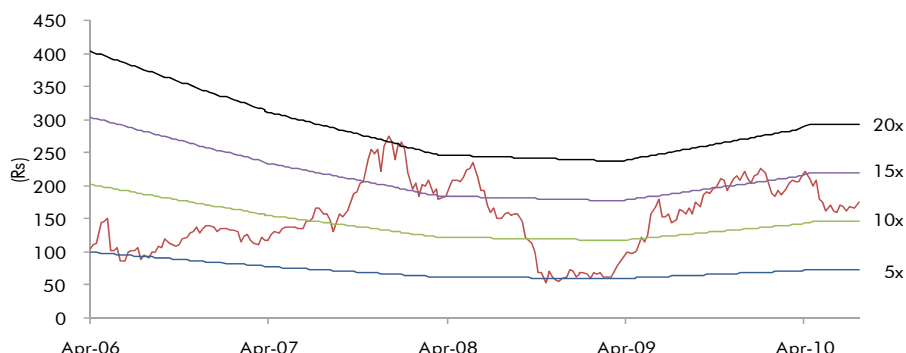
Source: Bloomberg, Angel Research

**Exhibit 10: EV/EBITDA band**


Source: Bloomberg, Angel Research

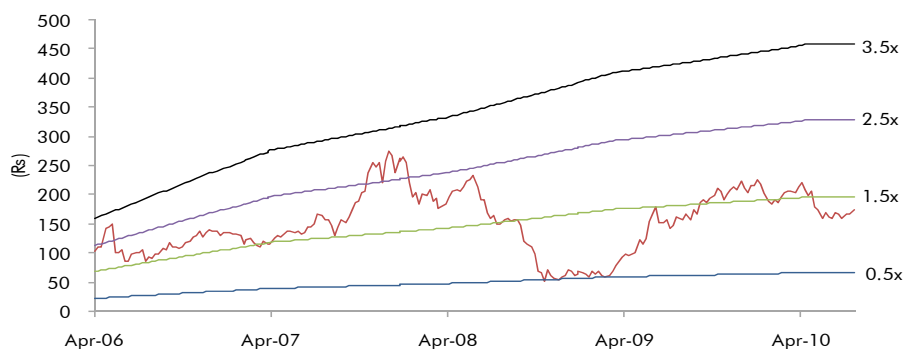


**Exhibit 11: P/E band**



Source: Bloomberg, Angel Research

**Exhibit 12: P/BV band**



Source: Bloomberg, Angel Research

**Exhibit 13: Recommendation summary**

| Company        | CMP<br>(Rs) | Target<br>Price<br>(Rs) | Reco.   | Mcap<br>(Rs cr) | Upside<br>(%) | P/E (x) |       | P/BV (x) |       | EV/EBITDA (x) |       | RoE (%) |       | RoCE (%) |       |
|----------------|-------------|-------------------------|---------|-----------------|---------------|---------|-------|----------|-------|---------------|-------|---------|-------|----------|-------|
|                |             |                         |         |                 |               | FY11E   | FY12E | FY11E    | FY12E | FY11E         | FY12E | FY11E   | FY12E | FY11E    | FY12E |
| SAIL           | 208         | -                       | Neutral | 85,830          | -             | 13.4    | 12.5  | 2.3      | 2.0   | 8.5           | 7.8   | 18.2    | 17.0  | 17.2     | 16.9  |
| Tata Steel     | 532         | 697                     | Buy     | 47,190          | 31.0          | 8.7     | 9.3   | 1.5      | 1.3   | 6.7           | 6.1   | 17.9    | 14.7  | 11.8     | 11.7  |
| JSW Steel      | 1,170       | 1,360                   | Buy     | 21,888          | 16.2          | 10.8    | 9.1   | 2.0      | 1.6   | 7.0           | 5.5   | 22.1    | 21.3  | 15.0     | 16.7  |
| Sesa Goa       | 366         | -                       | Neutral | 30,390          | -             | 7.2     | 7.5   | 2.5      | 1.9   | 3.9           | 3.1   | 45.9    | 31.5  | 43.7     | 34.7  |
| NMDC           | 261         | 247                     | Reduce  | 103,618         | (5.5)         | 14.4    | 12.0  | 5.2      | 3.9   | 9.0           | 7.0   | 41.8    | 36.7  | 55.7     | 48.3  |
| Hindalco       | 156         | 208                     | Buy     | 29,767          | 33.7          | 8.1     | 7.7   | 1.2      | 1.0   | 5.6           | 5.4   | 15.3    | 14.1  | 10.4     | 10.0  |
| Nalco          | 434         | 316                     | Sell    | 27,947          | (27.1)        | 27.4    | 23.2  | 2.6      | 2.4   | 15.9          | 12.4  | 9.7     | 10.7  | 10.7     | 12.5  |
| Sterlite       | 174         | 228                     | Buy     | 58,542          | 30.9          | 12.2    | 8.8   | 1.3      | 1.2   | 6.5           | 4.4   | 11.6    | 14.2  | 11.1     | 14.1  |
| Hindustan Zinc | 1,001       | 1,227                   | Buy     | 42,298          | 22.6          | 10.4    | 8.0   | 1.9      | 1.6   | 5.7           | 3.6   | 20.4    | 21.6  | 20.7     | 22.3  |

Source: Angel Research

**Profit & Loss Statement (Consolidated)**

| Y/E March (Rs cr)                   | FY2007        | FY2008        | FY2009        | FY2010        | FY2011E       | FY2012E       |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Gross sales                         | 26,193        | 26,872        | 22,774        | 26,533        | 30,603        | 37,377        |
| Less: Excise duty                   | 1,806         | 2,167         | 1,629         | 2,123         | 3,060         | 3,738         |
| Net Sales                           | 24,387        | 24,705        | 21,144        | 24,410        | 27,542        | 33,639        |
| Other operating income              | -             | -             | -             | -             | -             | -             |
| <b>Total operating income</b>       | <b>24,387</b> | <b>24,705</b> | <b>21,144</b> | <b>24,410</b> | <b>27,542</b> | <b>33,639</b> |
| % chg                               | 85.8          | 1.3           | (14.4)        | 15.4          | 12.8          | 22.1          |
| Total expenditure                   | 14,928        | 16,837        | 16,440        | 18,339        | 19,731        | 22,964        |
| Net raw materials                   | 10,498        | 11,771        | 10,634        | 12,169        | 13,396        | 15,732        |
| Other Mfg costs                     | 3,881         | 4,407         | 5,050         | 5,316         | 5,233         | 5,887         |
| Personnel                           | 549           | 659           | 756           | 854           | 1,102         | 1,346         |
| Other                               |               |               |               |               |               |               |
| <b>EBITDA</b>                       | <b>9,459</b>  | <b>7,868</b>  | <b>4,704</b>  | <b>6,072</b>  | <b>7,811</b>  | <b>10,675</b> |
| % chg                               | 156.3         | (16.8)        | (40.2)        | 29.1          | 28.7          | 36.7          |
| (% of net sales)                    | 38.8          | 31.8          | 22.2          | 24.9          | 28.4          | 31.7          |
| Depreciation                        | 804           | 595           | 701           | 750           | 1,131         | 1,227         |
| <b>EBIT</b>                         | <b>8,655</b>  | <b>7,273</b>  | <b>4,003</b>  | <b>5,322</b>  | <b>6,680</b>  | <b>9,448</b>  |
| % chg                               | 173.6         | (16.0)        | (45.0)        | 32.9          | 25.5          | 41.4          |
| (% of net sales)                    | 35.5          | 29.4          | 18.9          | 21.8          | 24.3          | 28.1          |
| Interest charges                    | 379           | 319           | 397           | 342           | 784           | 814           |
| Other income                        | 682           | 1,566         | 2,154         | 1,959         | 2,479         | 2,691         |
| (% of PBT)                          | 7.6           | 18.4          | 37.4          | 28.2          | 29.6          | 23.8          |
| Share in profit of associates       | -             | -             | -             | -             | -             | -             |
| <b>Recurring PBT</b>                | <b>8,958</b>  | <b>8,521</b>  | <b>5,760</b>  | <b>6,939</b>  | <b>8,375</b>  | <b>11,324</b> |
| % chg                               | 174.6         | (4.9)         | (32.4)        | 20.5          | 20.7          | 35.2          |
| Extraordinary inc/(expense)         | (157.2)       | (52.8)        | 55.3          | (297.0)       | -             | -             |
| <b>PBT (reported)</b>               | <b>8,800</b>  | <b>8,468</b>  | <b>5,816</b>  | <b>6,642</b>  | <b>8,375</b>  | <b>11,324</b> |
| Tax                                 | 2,473         | 2,103         | 855           | 1,233         | 1,842         | 2,491         |
| (% of PBT)                          | 28.1          | 24.8          | 14.7          | 18.6          | 22.0          | 22.0          |
| <b>PAT (reported)</b>               | <b>6,327</b>  | <b>6,365</b>  | <b>4,961</b>  | <b>5,409</b>  | <b>6,532</b>  | <b>8,833</b>  |
| Add: Share of earnings of associate | (0)           | (4)           | (154)         | 59            | (100)         | -             |
| Less: Minority interest             | 1,904         | 1,962         | 1,267         | 1,724         | 1,633         | 2,208         |
| Extraordinary expense/(inc.)        | -             | -             | -             | -             | -             | -             |
| <b>Net Income</b>                   | <b>4,422</b>  | <b>4,399</b>  | <b>3,540</b>  | <b>3,744</b>  | <b>4,799</b>  | <b>6,625</b>  |
| <b>Adj. Net Income</b>              | <b>4,536</b>  | <b>4,439</b>  | <b>3,493</b>  | <b>3,986</b>  | <b>4,799</b>  | <b>6,625</b>  |
| % chg                               | 170.3         | (2.1)         | (21.3)        | 14.1          | 20.4          | 38.0          |
| (% of net sales)                    | 18.6          | 18.0          | 16.5          | 16.3          | 17.4          | 19.7          |
| <b>Basic EPS (Rs)</b>               | <b>20.3</b>   | <b>15.7</b>   | <b>12.3</b>   | <b>11.9</b>   | <b>14.3</b>   | <b>19.7</b>   |
| <b>Fully Diluted EPS (Rs)</b>       | <b>20.3</b>   | <b>15.7</b>   | <b>12.3</b>   | <b>11.9</b>   | <b>14.3</b>   | <b>19.7</b>   |
| % chg                               | (72.9)        | (22.9)        | (21.3)        | (3.8)         | 20.4          | 38.0          |

**Balance Sheet (Consolidated)**

| Y/E March (Rs cr)           | FY2007        | FY2008        | FY2009        | FY2010        | FY2011E       | FY2012E       |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>SOURCES OF FUNDS</b>     |               |               |               |               |               |               |
| Equity share capital        | 112           | 142           | 142           | 168           | 168           | 168           |
| Reserves & surplus          | 9,870         | 22,161        | 26,628        | 39,225        | 43,463        | 49,312        |
| <b>Shareholders funds</b>   | <b>9,982</b>  | <b>22,303</b> | <b>26,770</b> | <b>39,393</b> | <b>43,631</b> | <b>49,480</b> |
| Share warrants              | -             | -             | -             | -             | -             | -             |
| Minority interest           | 3,626         | 5,623         | 5,623         | 5,623         | 5,623         | 5,623         |
| Total loans                 | 4,610         | 5,075         | 7,075         | 10,575        | 13,075        | 13,575        |
| Deferred tax liability      | 917           | 1,354         | 1,354         | 1,354         | 1,354         | 1,354         |
| <b>Total liabilities</b>    | <b>19,135</b> | <b>34,354</b> | <b>40,822</b> | <b>56,944</b> | <b>63,682</b> | <b>70,032</b> |
| <b>APPLICATION OF FUNDS</b> |               |               |               |               |               |               |
| Gross block                 | 12,641        | 14,564        | 17,064        | 20,564        | 23,564        | 25,564        |
| Less: Acc. depreciation     | 4,324         | 4,588         | 5,289         | 6,039         | 7,170         | 8,397         |
| <b>Net block</b>            | <b>8,318</b>  | <b>9,975</b>  | <b>11,775</b> | <b>14,525</b> | <b>16,394</b> | <b>17,167</b> |
| Capital work-in-progress    | 1,400         | 2,461         | 3,961         | 5,461         | 6,461         | 7,461         |
| Goodwill                    | -             | -             | -             | -             | -             | -             |
| Investments                 | 5,222         | 16,294        | 16,294        | 16,294        | 16,294        | 16,294        |
| <b>Current assets</b>       | <b>9,059</b>  | <b>10,663</b> | <b>13,861</b> | <b>25,949</b> | <b>30,029</b> | <b>35,089</b> |
| Cash                        | 1,113         | 2,454         | 5,883         | 17,375        | 20,967        | 24,974        |
| Loans & advances            | 3,484         | 3,314         | 3,314         | 3,314         | 3,314         | 3,314         |
| Other                       | 4,462         | 4,896         | 4,665         | 5,261         | 5,749         | 6,801         |
| <b>Current liabilities</b>  | <b>4,864</b>  | <b>5,040</b>  | <b>5,070</b>  | <b>5,285</b>  | <b>5,497</b>  | <b>5,980</b>  |
| <b>Net current assets</b>   | <b>4,196</b>  | <b>5,623</b>  | <b>8,792</b>  | <b>20,664</b> | <b>24,533</b> | <b>29,110</b> |
| Mis. exp. not written off   | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| <b>Total assets</b>         | <b>19,135</b> | <b>34,354</b> | <b>40,822</b> | <b>56,944</b> | <b>63,682</b> | <b>70,032</b> |

**Cash Flow Statement (Consolidated)**

| Y/E March (Rs cr)                  | FY2007         | FY2008          | FY2009         | FY2010         | FY2011E        | FY2012E        |
|------------------------------------|----------------|-----------------|----------------|----------------|----------------|----------------|
| Profit before tax                  | 8,800          | 8,468           | 5,816          | 6,642          | 8,375          | 11,324         |
| Depreciation                       | 804            | 595             | 701            | 750            | 1,131          | 1,227          |
| Change in working capital          | (1,567)        | (87)            | 261            | (380)          | (277)          | (569)          |
| Less: Other income                 | (1,905)        | (1,966)         | (1,421)        | (1,665)        | (1,733)        | (2,208)        |
| Direct taxes paid                  | 2,473          | 2,103           | 855            | 1,233          | 1,842          | 2,491          |
| <b>Cash Flow from operations</b>   | <b>3,660</b>   | <b>4,907</b>    | <b>4,501</b>   | <b>4,113</b>   | <b>5,653</b>   | <b>7,283</b>   |
| (Inc.)/ Dec. in fixed assets       | (1,840)        | (2,984)         | (4,000)        | (5,000)        | (4,000)        | (3,000)        |
| (Inc.)/ Dec. in investments        | (2,727)        | (11,072)        | 0              | -              | -              | -              |
| (Inc.)/ Dec. in loans and advances | -              | -               | -              | -              | -              | -              |
| Other income                       | -              | -               | -              | -              | -              | -              |
| <b>Cash Flow from investing</b>    | <b>(4,567)</b> | <b>(14,056)</b> | <b>(4,000)</b> | <b>(5,000)</b> | <b>(4,000)</b> | <b>(3,000)</b> |
| Issue of equity                    | (171.7)        | 8,051           | -              | 7,680          | -              | -              |
| Inc./(Dec.) in loans               | (555)          | 464             | 2,000          | 3,500          | 2,500          | 500            |
| Dividend Paid (incl. tax)          | 223            | 283             | 248            | 466            | 562            | 775            |
| Others                             | (1,856)        | (2,257)         | (1,176)        | (1,665)        | -              | -              |
| <b>Cash Flow from financing</b>    | <b>905</b>     | <b>10,489</b>   | <b>2,928</b>   | <b>12,379</b>  | <b>1,938</b>   | <b>(275)</b>   |
| Inc./(Dec.) in cash                | (2)            | 1,340           | 3,429          | 11,492         | 3,592          | 4,008          |
| <b>Opening cash balances</b>       | <b>1,115</b>   | <b>1,113</b>    | <b>2,454</b>   | <b>5,883</b>   | <b>17,375</b>  | <b>20,967</b>  |
| <b>Closing cash balances</b>       | <b>1,113</b>   | <b>2,454</b>    | <b>5,883</b>   | <b>17,375</b>  | <b>20,967</b>  | <b>24,974</b>  |

**Key Ratios**

| Y/E March                    | FY2007 | FY2008 | FY2009 | FY2010 | FY2011E | FY2012E |
|------------------------------|--------|--------|--------|--------|---------|---------|
| <b>Valuation Ratio (x)</b>   |        |        |        |        |         |         |
| P/E (on FDEPS)               | 8.6    | 11.1   | 14.1   | 14.7   | 12.2    | 8.8     |
| P/CEPS                       | 7.3    | 9.8    | 11.8   | 12.4   | 9.9     | 7.5     |
| P/BV                         | 3.9    | 2.2    | 1.8    | 1.5    | 1.3     | 1.2     |
| Dividend yield (%)           | 1.0    | 0.9    | 0.8    | 0.8    | 1.0     | 1.3     |
| EV/Sales                     | 1.7    | 2.1    | 2.4    | 2.1    | 1.8     | 1.4     |
| EV/EBITDA                    | 4.5    | 6.6    | 10.7   | 8.5    | 6.5     | 4.4     |
| EV/Total assets              | 2.2    | 1.5    | 1.2    | 0.9    | 0.8     | 0.7     |
| <b>Per Share Data (Rs)</b>   |        |        |        |        |         |         |
| EPS (Basic)                  | 20.3   | 15.7   | 12.3   | 11.9   | 14.3    | 19.7    |
| EPS (fully diluted)          | 20.3   | 15.7   | 12.3   | 11.9   | 14.3    | 19.7    |
| Cash EPS                     | 23.9   | 17.8   | 14.8   | 14.1   | 17.6    | 23.4    |
| DPS                          | 1.7    | 1.6    | 1.4    | 1.4    | 1.7     | 2.3     |
| Book Value                   | 44.7   | 78.6   | 94.5   | 117.2  | 129.9   | 147.3   |
| <b>Dupont Analysis</b>       |        |        |        |        |         |         |
| EBIT margin                  | 35.5   | 29.4   | 18.9   | 21.8   | 24.3    | 28.1    |
| Tax retention ratio (%)      | 71.9   | 75.2   | 85.3   | 81.4   | 78.0    | 78.0    |
| Asset turnover (x)           | 1.5    | 0.8    | 0.7    | 0.7    | 0.8     | 0.9     |
| RolC (post-tax)              | 37.4   | 18.6   | 11.0   | 12.7   | 14.4    | 19.6    |
| Cost of Debt (post tax)      | 5.6    | 4.9    | 5.6    | -      | -       | -       |
| Leverage (x)                 | 0.4    | 0.1    | 0.0    | -      | -       | -       |
| Operating RoE                | 49.5   | 20.0   | 11.1   | 12.7   | 14.4    | 19.6    |
| <b>Returns (%)</b>           |        |        |        |        |         |         |
| RoCE (Pre-tax)               | 52.7   | 27.2   | 10.7   | 10.9   | 11.1    | 14.1    |
| Angel RolC (pre-tax)         | 60.9   | 31.6   | 13.3   | 16.4   | 19.0    | 25.6    |
| RoE                          | 56.5   | 27.5   | 14.2   | 12.0   | 11.6    | 14.2    |
| <b>Turnover ratios (x)</b>   |        |        |        |        |         |         |
| Asset turnover (gross block) | 2.0    | 1.8    | 1.3    | 1.3    | 1.2     | 1.4     |
| Inventory (days)             | 68     | 71     | 70     | 70     | 70      | 70      |
| Receivables (days)           | 24     | 23     | 25     | 25     | 25      | 25      |
| Payables (days)              | 22     | 29     | 30     | 30     | 30      | 30      |
| WC capital cycle (days)      | 34     | 46     | 52     | 46     | 45      | 42      |
| <b>Solvency ratios (x)</b>   |        |        |        |        |         |         |
| Net debt to equity           | 0.4    | 0.1    | 0.0    | (0.2)  | (0.2)   | (0.2)   |
| Net debt to EBITDA           | 0.4    | 0.3    | 0.0    | (1.4)  | (1.2)   | (1.1)   |
| Interest Coverage            | 22.8   | 22.8   | 10.1   | 15.5   | 8.5     | 11.6    |

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### Sterlite Industries

|  |    |
|--|----|
| 1. Analyst ownership of the stock                                  | No |
| 2. Angel and its Group companies ownership of the stock            | No |
| 3. Angel and its Group companies' Directors ownership of the stock | No |
| 4. Broking relationship with company covered                       | No |

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|                            |                     |                        |                    |
|----------------------------|---------------------|------------------------|--------------------|
| <b>Ratings (Returns) :</b> | Buy (> 15%)         | Accumulate (5% to 15%) | Neutral (-5 to 5%) |
|                            | Reduce (-5% to 15%) | Sell (< -15%)          |                    |