

Sterlite Industries

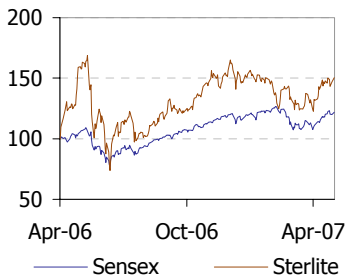
 Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 559mn*
Market cap	: Rs 302bn
52 week high/low	: Rs 614/ Rs.258
Avg. daily vol. (6mth)	: 1.4mn shares
Bloomberg code	: STLT IN
Reuters code	: STRL.BO

* Current no of shares , post ADS est no of shares would be 679 mn shares

Shareholding (%)	Mar-07	QoQ chg
Promoters	: 79.3	0.0
FII's	: 7.4	0.0
MFs / UTI	: 1.3	(0.3)
Banks / FIs	: 3.1	0.6
Others	: 9.0	(0.3)

CONSOLIDATING PROFITS

Sterlite Industries (SIL) reported consolidated Q4FY07 net revenue of Rs 62.5bn, up 23% YoY from Rs 50.9bn. Consolidated EBITDA increased by 19.3% YoY to Rs 22.7bn from Rs 19bn. EBITDA margins declined marginally to 36% from 37% in Q4FY06 due to lower TCRC charges for the copper business. Adjusted PAT (net of minority interest and exceptional items) increased 45.3% to Rs 11.5bn.

Q4FY07 highlights

- **Copper:** EBITDA in FY07 grew 70% YoY on better TCRC realizations, higher LME prices and a reduction in unit cost.
- **Zinc:** EBITDA grew 11% YoY to Rs 14.7bn on the back of higher average LME zinc prices.
- **Aluminium:** Q4FY07 EBITDA grew 112% YoY to Rs 6.2bn. Higher aluminium prices and operational efficiencies led to margin expansion in the aluminium business.

Outlook

Zinc prices have been stable and are trading in the range of ~USD 3,600-3,800/ ton after declining to levels of USD 3,050/ ton. We believe zinc fundamentals continue to remain healthy in the short term, underpinned by firm Chinese demand and tight concentrate supply. Aluminium prices are expected to remain firm in FY08 on the back of strong demand from the BRICs region. Sterlite is well placed to gain from high copper and aluminium volumes as well as firm zinc and aluminium prices. We expect higher copper volumes in FY08 to offset the drop in TCRC. Similarly, increase in aluminium volumes and lower operating costs are expected to benefit the company.

Our FY08 price assumptions are USD 3,300/ton for Zinc and USD 2,340/ton for aluminium. The current spot prices of these metals are ~20% higher. We expect Sterlite to consolidate its holding in Balco and HZL. We revise our FY08 EPS to Rs 85.2 (Rs 88.7) to reflect the revised exchange rate assumptions. At CMP the stock is attractively valued at 6.4x FY08E earnings and does not reflect current non-ferrous metals pricing upside. We believe Sterlite provides an indirect resource play on zinc and offers diversification in the non-ferrous metals space. We reiterate our sector **Outperformer** rating with a revised target price of Rs 874 (10x FY08E EPS + FY07E Cash of ~Rs 22/diluted share).

Financial summary - (Consolidated)

Y/E Mar	Sales (Rs mn)	Adj.PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2006	131,820	16,388	-	24.1	122	14.5	24.9	29	7.3	1.4
2007	243,868	45,434	-	66.9	177	7.0	37.8	57	2.5	4.0
2008E	242,727	57,799	78.9	85.2	27	6.4	37.0	48	3.4	4.0
2009E	216,531	61,264	73.3	90.3	6	6.0	40.0	52	2.8	4.0

Source: *Consensus broker estimates, Company, ENAM estimates on fully diluted equity post proposed ADR issue

Results update – (Consolidated)

(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	62,516	50,998	22.6	68,143	(8.3)	242,727	243,868	(0.5)
EBIDTA	22,716	19,037	19.3	27,628	(17.8)	92,628	94,589	(2.1)
Other income	2,485	1,037	139.6	1,864	33.3	5,506	6,817	(19.2)
PBIDT	25,201	20,074	25.5	29,492	(14.5)	98,134	101,406	(3.2)
Depreciation	2,446#	2,185	11.9	1,888	29.6	8,654	8,039#	7.7
Interest	874	942	(7.2)	856	2.1	2,232	3,791	(41.1)
PBT	21,881	16,947	29.1	26,749	(18.2)	87,248	89,576	(2.6)
Tax	4,702	5,836	(19.4)	7,763	(39.4)	26,146	24,118	8.4
Minority Interest/Associates	5,685	3,199	77.7	6,030	(5.7)	3,304	20,024	(83.5)
Adjusted PAT after minority	11,495	7,912	45.3	12,955	(11.3)	57,799	45,434	27.2
Extra ordinary income/ (exp.)	(63)	218	-	(25)	-	-	(1,572)	-
Reported PAT after minority	11,432	8,130	40.6	12,930	(11.6)	57,799	43,862	31.8
No. of shares (mn) *	559	559	-	559	-	679	559	-
EBIDTA margins (%)	36	37	-	41	-	38.2	38.8	-
PBIDT margins (%)	40	39	-	43	-	40.4	41.6	-
EPS - annualized (Rs.)^	68	47	45.3	76	(11.3)	85.2	66.9	27.2

Source: Company, ENAM Research, * No. of shares after considering subdivision in face value from Rs 5 to Rs 2 and subsequent bonus issue of 1:1
^EPS is computed on a fully diluted basis post proposed ADR issue, # Includes ~Rs 610mn incremental depreciation on account of change in depreciation policy

Highlights**Copper:**

Copper cathode production during the quarter was the highest ever at 89,000 tonnes, up 19% from Q4FY06. Debottlenecking at the Tuticorin smelter has increased the total capacity to 400,000tpa contributing to volume growth during the quarter. The smelter was under planned shutdown for eight days in first week of April 2007 for carrying out modifications and improvements at the sulphuric acid plant.

EBIDTA for FY07 from the copper business grew by 70% to Rs 18.1bn. The EBIDTA margin on a YoY basis improved primarily due to better TCRC charges, higher copper LME prices and a decline in the per unit cost of production. The average TCRC charges for FY07 improved significantly to 31.2 US cents/ lb from 23.1 US cents/ lb. In FY08 the company expects TCRC charges to soften.

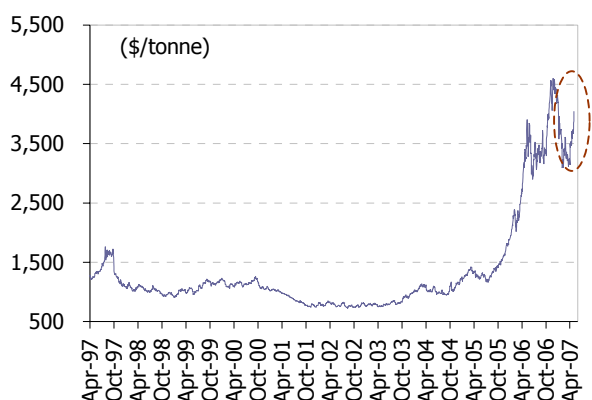
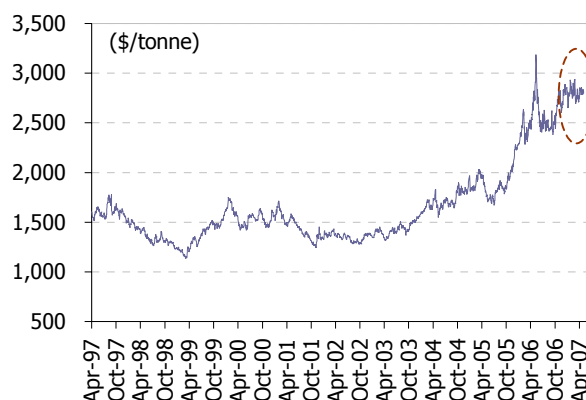
Aluminium:

Aluminium production during the quarter was 89,000 tonnes, an increase of 48% compared to Q4FY06. The production at BALCO's new smelter has stabilized after disruption of production in Q2FY07 due to power tripping. The revenues for the business in the quarter grew by 50% YoY to Rs 12.8bn on the back of higher realizations and increased production from the new Korba smelter. EBIDTA increased 112% YoY with increased volumes and improved realizations during the quarter.

Zinc:

Zinc production (mined metal content) was lower by 3% YoY at ~121,423 MT in Q4FY07, while refined metal output was higher by 4%, on account of increased output from the new smelter at Chanderiya. EBITDA grew 11% YoY to Rs 14.7bn on the back of higher average LME zinc prices. Average LME zinc prices stood at USD 3,460/ tonne in Q4FY07 as against USD 2,248/ tonne in Q4FY06.

The 170,000 tonne zinc expansion project at Chanderiya together with corresponding expansion at the Agucha mine is progressing well on schedule and is likely to be commissioned in early 2008. The de-bottlenecking project at the Chanderiya and Debari smelters is on track and is likely to increase the total zinc smelting capacity by 88,000tpa.

Zinc: Spot price trend**Aluminum: Spot price trend**

Source: Bloomberg

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