

UBS Investment Research

Sterlite Industries

HZL Q2 marginally lower

■ Event: Results lower due to net sales; Change in dividend policy positive

Pre-ex PAT of Rs13.6bn (-9% QoQ, +40% YoY) and EBITDA of Rs14.2bn (-9%, +31% YoY) was lower than UBS-e of Rs14.3bn/Rs15.1bn. Net Sales of Rs25.9bn (-8% QoQ, +20% YoY) was lower than UBS-e/consensus estimate of Rs27.5bn/Rs28.4bn. EBITDA margin was inline at 54.8%. HZL announced interim dividend of Rs1.5/share (Rs1 in FY11) which equals 22% of 1H PAT and payout from now will be on percentage of profit. Historically payout has been c7%.

■ Impact: Marginal impact of Q2 on Sterlite; Cash to Sterlite will increase

Sterlite owns 65% in HZL. HZL contributed 70%/63% of Sterlite's consol PAT for FY10/FY11. Though results are marginally lower than estimates we believe it will have a negligible impact on Sterlite. Change in dividend policy is positive for Sterlite. We est. Sterlite will get cUS\$178/157mn in dividends at 20% payout in FY12/13 from HZL (cRs3 /share of Sterlite).

■ Action: Reiterate Buy on Sterlite, positives outweigh regulatory overhang

We believe Sterlite is attractive at current levels given triggers such as: 1) strong earnings momentum from existing operations (zinc/lead/silver volume growth in FY12 in HZL) 2) consolidation of earnings from Anglo Zinc 3) attractive valuations. HZL has cash/investments of US\$3.2bn (Rs162.29bn)

■ Valuation: Buy rating and price target of Rs215.00

We value Sterlite's key businesses (copper, Zinc/HZL, Balco) on March 2013E EV/EBITDA of 5.5x (average of last two cycles) and investments at book value. HZL contributes Rs120/share to our target price of Sterlite (57% of target price).

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	208,655	246,085	278,918	384,030	401,221
EBIT (UBS)	40,035	53,220	66,046	108,673	110,315
Net Income (UBS)	34,647	40,407	45,215	70,401	71,293
EPS (UBS, Rs)	12.23	12.02	13.45	20.94	21.21
Net DPS (UBS, Rs)	1.09	1.18	1.38	1.50	1.70

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	25.7	21.6	23.7	28.3	27.5
ROIC (EBIT) %	39.0	21.8	18.0	24.9	24.6
EV/EBITDA (core) x	3.9	6.6	3.3	2.1	2.2
PE (UBS) x	9.6	14.6	8.9	5.7	5.6
Net dividend yield %	0.8	0.7	1.2	1.3	1.4

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs119.10 on 19 Oct 2011 22:32 EDT

Navin Gupta, CFA

Analyst
navin-kumar.gupta@ubs.com
+91-22-6155 6052

Global Equity Research

India

Non-Ferrous Metals

12-month rating **Buy ***
Unchanged

12m price target **Rs215.00/-**
Unchanged

Price **Rs119.10/US\$9.75 (GDR)**

RIC: STRL.BO BBG: STLT IB

19 October 2011

Trading data (local/US\$)

52-wk range	Rs193.35-104.50/US\$17.21-8.57
Market cap.	Rs400bn/US\$8.19bn
Shares o/s	3,362m (ORD)/840m (GDR)
GDR ratio	1 GDR:4 ORD
Free float	21%
Avg. daily volume ('000)	6,777/74
Avg. daily value (m)	Rs885.8/US\$0.8

Balance sheet data 03/11E

Shareholders' equity	Rs403bn
P/BV (UBS)	1.0x
Net Cash (debt)	(Rs92.7bn)

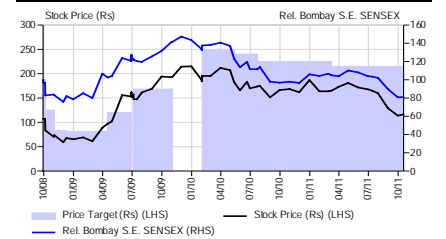
Forecast returns

Forecast price appreciation	+80.5%
Forecast dividend yield	1.2%
Forecast stock return	+81.7%
Market return assumption	13.3%
Forecast excess return	+68.4%

EPS (UBS, Rs)

	03/11E	03/10	03/10 Actual
	UBS	Cons.	
Q1E	0.00	-	4.87
Q2E	0.00	-	12.02
Q3E	0.00	0.00	3.00
Q4E	0.00	0.00	(7.11)
03/11E	13.45	13.45	
03/12E	20.94	20.94	

Performance (Rs)



Source: UBS

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This report has been prepared by UBS Securities India Private Ltd

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 8. * Exception to core rating bands; See page10

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Results marginally lower; Change in Dividend Policy positive

- Pre-ex PAT of Rs13.6bn (-9%QoQ, +40%YoY) was lower than UBS-e/consensus estimate of Rs14.34bn/Rs14.30bn.
- EBITDA at Rs14.2bn (-9%QoQ, +31%YoY) was lower than UBS-e/consensus estimate of Rs15.1bn /Rs15.6bn.
- Net Sales of Rs25.9bn (-8%QoQ, +20%YoY) was lower than UBS-e/consensus estimate of Rs27.5bn/Rs28.4bn. EBITDA margin was in line at 54.8%.

Table 1: Hindustan Zinc Q2FY12 results

(Rs m)	Q2FY11	Q1FY12	Q2FY12	QoQ	YoY
Net sales	21,629	28,214	25,935	-8.1%	19.9%
(Inc) / Dec in stock & WIP	(390)	1,105	(452)		
Raw material	590	213	65		
Stores & spares	2,272	2,366	2,648	11.9%	16.6%
Power & Fuel	2,607	2,953	2,924	-1.0%	12.2%
Mining Royalty	1,777	1,936	2,147	10.9%	20.8%
Other Mining and Mfg Exp	2,059	1,900	2,287	20.3%	11.0%
Employees Cost	1,155	1,274	1,290	1.3%	11.7%
Other Expenditure	687	802	812	1.2%	18.1%
Total Expenditure	10,758	12,548	11,720	-6.6%	8.9%
EBITDA	10,871	15,666	14,215	-9.3%	30.8%
EBITDA Margin	50.3%	55.5%	54.8%		
Depreciation & amortisation	1,158	1,345	1,455	8.2%	25.6%
EBIT -operating	9,713	14,321	12,760	-10.9%	31.4%
Other Income (including other operating income)	2,222	3,811	4,301	12.9%	93.6%
EBIT	11,935	18,131	17,061	-5.9%	43.0%
Interest & Finance exp	(5)	65	120	85.4%	-2458.8%
PBT (pre ex)	11,940	18,066	16,940	-6.2%	41.9%
Exceptional items	212	44	239		
PBT	11,728	18,022	16,702	-7.3%	42.4%
Tax Expenses -(Net)	2,241	3,073	3,255	5.9%	45.3%
Tax Rate (%)	19.1%	17.1%	19.5%		
Reported PAT	9,487	14,949	13,447	-10.0%	41.7%
PAT Pre-ex	9,739	14,986	13,639	-9.0%	40.0%
Pre-ex EPS	2.31	3.55	3.23	-9%	40.0%

Source: Company Data, UBS Calculations

- Net Sales were lower than estimates primarily due to:
 - Lower than expected ASPs in refined Lead and Silver metals.
 - Sales volumes were largely in line except for marginally lower volumes in refined Lead (14,686t vs our estimate of 17,000t)

Table 2: Product wise ASPs

ASP (Rs/t)	Q2 FY11	Q1 FY12	Q2FY12	QoQ	YoY
Refined Zinc	100,643	107,647	108,122	0%	7%
Refined Lead	105,134	127,207	120,019	-6%	14%
Lead Concentrate	94,444	270,823			
Silver (Rs/kg)	29,373	55,758	57,746	4%	97%
Sulphuric Acid	1,945	3,061	3,013	-2%	55%

Source: Company Data, UBS Calculations

Table 3: Product wise Sales volumes

Sales Volume (kt)	Q2 FY11	Q1 FY12	Q2FY12	QoQ	YoY
Refined Zinc	175,309	191,571	184,161	-4%	5%
Refined Lead	14,458	14,712	14,686	0%	2%
Lead Concentrate (MIC)	3,348	5,418	-	-100%	-100%
Silver (t)	36,879	40,908	41,454	1%	12%
Sulphuric Acid	300,029	318,769	312,682	-2%	4%
Cadmium (t)	137	109	103	-5%	-25%

Source: Company Data, UBS Calculations

Table 4: Product wise Sales Value

Sale Value (Rs m)	Q2 FY11	Q1 FY12	Q2FY12	QoQ	YoY
Refined Zinc	17,644	20,622	19,912	-3%	13%
Refined Lead	1,520	1,871	1,763	-6%	16%
Zinc Concentrate	(15)	-	-		
Lead Concentrate	316	1,467	38	-97%	-88%
Silver	1,083	2,281	2,394	5%	121%
Sulphuric Acid	584	976	942	-3%	61%
Others	497	996	887	-11%	78%
Total Revenue	21,628	28,213	25,935	-8%	20%

Source: Company Data, UBS Calculations

Table 5: Product wise Volumes

Production Volumes (tonnes)	Q2 FY11	Q1 FY12	Q2FY12	QoQ	YoY
Zinc	176,239	192,980	184,816	-4%	5%
Lead	14,521	14,800	15,657	6%	8%
Silver (kg)	35,341	39,586	42,081	6%	19%
Sulphuric Acid	312,070	324,589	317,245	-2%	2%
Cadmium	135	109	104	-4%	-23%

Source: Company Data, UBS Calculations

Key takeaways from the conference call

1. Lead Smelter & Silver refinery:

- 100ktpa Dariba smelter has been commissioned, incremental FY12 Lead production of 40kt can be expected from this smelter. The smelter is currently in ramp up stage and management is confident of exiting FY12 at close to 90% of rated capacity.
- The Sindesar Khurd mine ramp up is also progressing as per plan.
- Once the Dariba smelter is fully ramped up, the total Lead capacity will be 185 ktpa. HZL will fall short of 10-15kt of Lead concentrate (MIC basis), which will have to be imported, in order to fully utilize the available smelter capacity.
- Alongside Dariba smelter ramp up, the 350 tpa silver refinery (which will be commissioned in Q3), will also be ramped up. In FY13 the management expects to produce c450 tons of refined silver (UBS-e 300 tons).

2. Cash cost of production

- Q2 CoP is US\$847/t vs US\$870/t in Q1. Management expects this to come down further over coming quarters due to strong cost control initiatives.

3. Concentrate Sales:

- Management doesn't intend to sell Zn/Lead concentrate, but when concentrate production is significantly higher than available refining capacity concentrate sales will be considered. In this quarter there was no lead concentrate sale (c5000t in Q1FY12)

4. Update on Kayar mine (upcoming project):

- The R&R for the mine is 11mt; ground breaking has begun. Management expects to produce 1mt of ore p.a.; cash cost will not be much higher than the existing US\$850/t despite it being an underground mine.

5. Change in dividend policy

- HZL announced a dividend pay out of 20% this quarter which is the highest ever. The board has decided to move to a percentage pay out method from the earlier progressive method. The dividend payout for FY11 was Rs1/sh vs Rs1.5/sh in this quarter - equals 22% of 1H PAT. Historically payout has been c7%.
- We estimate Sterlite will get cUS\$178/157mn in dividends at 20% payout in FY12/13 from HZL (cRs3 /share of Sterlite)

6. Anglo Zinc Assets

- Initially Anglo Zinc assets were considered to be bought within HZL, but as the move didn't receive board approval, they were bought by Sterlite Industries (HZL's parent). HZL has a strong liquidity position of cUS\$3.2bn. In response to a question from an analyst as to whether these assets will be bought from Sterlite into the books of HZL, management denied any such plans now.

Sterlite Industries

Income statement (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	135,395	247,702	248,043	208,655	246,085	278,918	13.3	384,030	37.7	401,221	4.5
Operating expenses (ex deprecn)	(98,517)	(153,524)	(169,361)	(161,613)	(185,367)	(203,251)	9.6	(259,455)	27.7	(271,976)	4.8
EBITDA (UBS)	36,878	94,179	78,682	47,041	60,718	75,666	24.6	124,574	64.6	129,245	3.7
Depreciation	(5,269)	(8,039)	(5,950)	(7,007)	(7,498)	(9,620)	28.3	(15,902)	65.3	(18,930)	19.0
Operating income (EBIT, UBS)	31,609	86,140	72,732	40,035	53,220	66,046	24.1	108,673	64.5	110,315	1.5
Other income & associates	3,363	6,817	15,661	21,543	19,594	27,356	39.6	31,868	16.5	35,030	9.9
Net interest	(2,353)	(3,791)	(3,186)	(3,973)	(3,424)	(9,050)	164.3	(14,644)	61.8	(20,603)	40.7
Abnormal items (pre-tax)	(30)	(1,572)	(528)	553	(2,970)	0	-	0	-	0	-
Profit before tax	32,589	87,594	84,679	58,158	66,420	84,353	27.0	125,897	49.3	124,742	-0.9
Tax	(10,236)	(24,707)	(21,935)	(8,750)	(12,330)	(17,200)	39.5	(26,633)	54.8	(25,971)	-2.5
Profit after tax	22,353	62,887	62,744	49,407	54,091	67,152	24.1	99,264	47.8	98,771	-0.5
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	(5,574)	(19,043)	(18,633)	(14,207)	(16,653)	(21,938)	31.7	(28,863)	31.6	(27,478)	-4.8
Net income (local GAAP)	16,778	43,845	44,111	35,200	37,437	45,215	20.8	70,401	55.7	71,293	1.3
Net Income (UBS)	16,808	45,417	44,639	34,647	40,407	45,215	11.9	70,401	55.7	71,293	1.3
Tax rate (%)	31	28	26	15	19	20	9.8	21	3.7	21	-1.6
Pre-abnormal tax rate (%)	35	30	32	24	25	30	21.9	28	-6.1	29	2.2
Per share (Rs)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	7.51	19.62	15.57	12.42	11.14	13.45	20.8	20.94	55.7	21.21	1.3
EPS (UBS)	7.52	20.32	15.75	12.23	12.02	13.45	11.9	20.94	55.7	21.21	1.3
Net DPS	0.36	1.72	0.63	1.09	1.18	1.38	16.9	1.50	9.1	1.70	13.3
Cash EPS	9.88	23.92	17.85	14.70	14.25	16.31	14.5	25.67	57.4	26.84	4.5
BVPS	27.09	44.67	78.70	90.38	440.41	119.85	-72.8	137.32	14.6	154.42	12.5
Balance sheet (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	85,497	97,176	124,367	172,104	233,500	338,448	44.9	354,982	4.9	353,382	-0.5
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	15,156	30,824	31,698	19,260	92,418	101,020	9.3	109,119	8.0	109,428	0.3
Other liabilities	(7,406)	(9,174)	(13,536)	(14,076)	(15,524)	(15,524)	0.0	(15,524)	0.0	(15,524)	0.0
Operating invested capital	93,247	118,826	142,529	177,289	310,393	423,944	36.6	448,577	5.8	447,286	-0.3
Investments	24,952	52,219	162,941	162,062	203,045	175,013	-13.8	207,358	18.5	204,703	-1.3
Total capital employed	118,199	171,045	305,469	339,351	513,438	598,957	16.7	655,935	9.5	651,989	-0.6
Shareholders' equity	60,533	99,818	223,026	256,132	370,120	402,895	8.9	461,610	14.6	519,099	12.5
Minority interests	16,948	36,259	56,233	68,132	84,096	103,378	22.9	129,586	25.4	154,410	19.2
Total equity	77,480	136,076	279,259	324,264	454,216	506,273	11.5	591,197	16.8	673,508	13.9
Net debt / (cash)	40,719	34,969	26,210	15,087	59,222	92,684	56.5	64,738	-30.2	(21,520)	-
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	118,199	171,045	305,469	339,351	513,438	598,957	16.7	655,935	9.5	651,989	-0.6
Cash flow (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	31,609	86,140	72,732	40,035	53,220	66,046	24.1	108,673	64.5	110,315	1.5
Depreciation	5,269	8,039	5,950	7,007	7,498	9,620	28.3	15,902	65.3	18,930	19.0
Net change in working capital	(7,069)	(15,668)	(874)	12,438	(73,157)	(8,603)	-88.2	(8,099)	-5.9	(309)	-96.2
Other (operating)	3,333	5,514	16,517	21,323	15,347	27,356	78.3	31,868	16.5	35,030	9.9
Operating cash flow (pre tax/interest)	33,142	84,025	94,325	80,802	2,907	94,420	3148.1	148,344	57.1	163,965	10.5
Net interest received / (paid)	(2,353)	(3,791)	(3,186)	(3,973)	(3,424)	(9,050)	164.3	(14,644)	61.8	(20,603)	40.7
Dividends paid	(1,222)	(3,856)	(1,777)	(3,093)	(4,488)	(5,798)	29.19	(6,326)	9.09	(7,169)	13.33
Tax paid	(7,823)	(23,044)	(17,572)	(8,211)	(10,881)	(17,200)	58.1	(26,633)	54.8	(25,971)	-2.5
Capital expenditure	(12,648)	(19,718)	(33,141)	(54,744)	(68,894)	(114,568)	66.3	(32,436)	-71.7	(17,330)	-46.6
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	0	0	0	0	0	0	-	0	-	0	-
Share issues	1,732	(704)	80,875	998	81,040	(6,641)	-	(5,360)	-19.3	(6,636)	23.8
Cash flow (inc)/dec in net debt	10,828	32,912	119,523	11,780	(3,740)	(58,838)	1473.2	62,946	-	86,257	37.0
FX / non cash items	(6,360)	(27,163)	(110,763)	(657)	(40,396)	25,376	-	(35,000)	-	0	-
Balance sheet (inc)/dec in net debt	4,468	5,750	8,759	11,123	(44,136)	(33,462)	-24.2	27,946	-	86,257	208.7
Core EBITDA	36,878	94,179	78,682	47,041	60,718	75,666	24.6	124,574	64.6	129,245	3.7
Maintenance capital expenditure	0	0	0	0	0	0	-	0	-	0	-
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	36,878	94,179	78,682	47,041	60,718	75,666	24.6	124,574	64.6	129,245	3.7

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Buy *

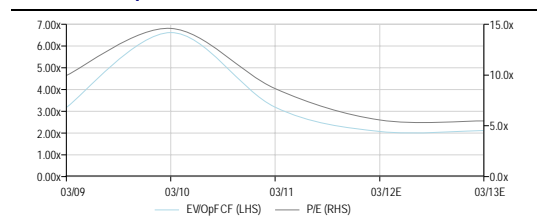
12m price target

Rs215.00

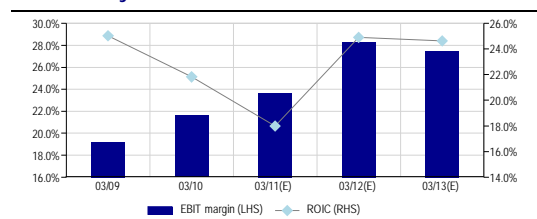
Company profile

Sterlite Industries, the flagship of the Agarwal group, owns a 400ktpa copper smelter in Tuticorin, India. It is the holding company for Hindustan Zinc (HZL, with a 65% stake), Balco (51%), Copper Mines of Tasmania (CMT, 100%), and Sterlite Power (100%) within the Vedanta group. HZL had 411ktps zinc smelting capacity at end-FY07, which the company expects to raise to 669ktpa by June 2008. Balco has increased its aluminium smelting capacity from 135ktpa to 345ktpa. Sterlite is setting up a 2,400 MW merchant power plant that should start operations by December 2009. Sterlite holds 30% of Vedanta Alumina.

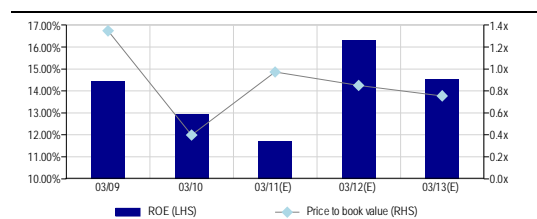
Value (EV/OpFCF & P/E)



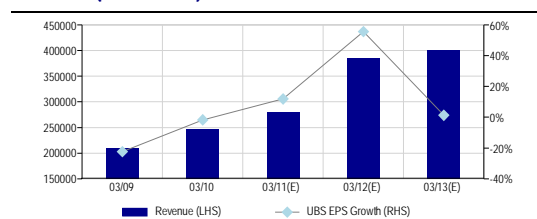
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	9.9	9.8	15.8	8.9	5.7	5.6
P/E (UBS)	9.6	10.0	14.6	8.9	5.7	5.6
P/CEPS	8.1	8.3	12.3	7.3	4.6	4.4
Net dividend yield (%)	0.8	0.9	0.7	1.2	1.3	1.4
P/BV	1.7	1.3	0.4	1.0	0.9	0.8
EV/revenue (core)	1.1	0.7	1.6	0.9	0.7	0.7
EV/EBITDA (core)	3.9	3.2	6.6	3.3	2.1	2.2
EV/EBIT (core)	4.3	3.7	7.6	3.8	2.5	2.6
EV/OpFCF (core)	3.9	3.2	6.6	3.3	2.1	2.2
EV/op. invested capital	1.7	0.9	1.7	0.7	0.6	0.6

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Average market cap	345,082	569,238	400,367	400,367	400,367
+ minority interests	62,183	76,114	93,737	116,482	141,998
+ average net debt (cash)	20,648	37,155	37,155	37,155	37,155
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(278,124)	(280,018)	(281,694)	(287,333)	(296,811)
Core enterprise value	149,790	402,489	249,564	266,670	282,708

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	16.1	-15.9	17.9	13.3	37.7	4.5
EBITDA (UBS)	13.3	-40.2	29.1	24.6	64.6	3.7
EBIT (UBS)	13.9	-45.0	32.9	24.1	64.5	1.5
EPS (UBS)	12.4	-22.4	-1.7	11.9	55.7	1.3
Cash EPS	9.6	-17.7	-3.0	14.5	57.4	4.5
Net DPS	34.8	74.0	7.7	16.9	9.1	13.3
BVPS	100.8	14.8	NM	-72.8	14.6	12.5

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	28.8	22.5	24.7	27.1	32.4	32.2
EBIT / revenue	25.7	19.2	21.6	23.7	28.3	27.5
Net profit (UBS) / revenue	16.4	16.6	16.4	16.2	18.3	17.8

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	39.0	25.0	21.8	18.0	24.9	24.6
ROIC post tax	-	19.0	16.4	12.6	17.9	17.5
Net ROE	28.8	14.5	12.9	11.7	16.3	14.5

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	20.8	15.5	21.3	10.3	9.6	7.1
Dividend cover (UBS EPS)	15.9	11.2	10.2	9.8	14.0	12.5
Div. payout ratio (% , UBS EPS)	7.2	8.9	9.8	10.2	7.2	8.0
Net debt / EBITDA	0.6	0.3	1.0	1.2	0.5	NM

Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	1.5	1.3	1.0	0.8	0.9	0.9
Revenue / fixed assets	1.7	1.4	1.2	1.0	1.1	1.1
Revenue / net working capital	7.4	8.2	4.4	2.9	3.7	3.7

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	1.1	1.2	1.1	1.1	1.1	1.2
Capex / revenue (%)	17.4	26.2	28.0	NM	8.4	4.3
Capex / depreciation	5.6	7.8	9.2	NM	2.0	0.9

Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	17.5	5.9	16.0	23.0	14.0	(4.1)
Net debt / (net debt + equity)	14.9	5.6	13.8	18.7	12.3	(4.3)
Net debt (core) / EV	13.8	13.8	9.2	14.9	13.9	13.1

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs119.10 on 19 Oct 2011 22:32 EDT Market cap(E) may include forecast share issues/buybacks.

Navin Gupta, CFA

Analyst

navin-kumar.gupta@ubs.com

+91-22-6155 6052

* Exception to core rating bands; See page10

■ Sterlite Industries

Sterlite Industries, the flagship of the Agarwal group, owns a 400ktpa copper smelter in Tuticorin, India. It is the holding company for Hindustan Zinc (HZL, with a 65% stake), Balco (51%), Copper Mines of Tasmania (CMT, 100%), and Sterlite Power (100%) within the Vedanta group. HZL had 411ktps zinc smelting capacity at end-FY07, which the company expects to raise to 669ktpa by June 2008. Balco has increased its aluminium smelting capacity from 135ktpa to 345ktpa. Sterlite is setting up a 2,400 MW merchant power plant that should start operations by December 2009. Sterlite holds 30% of Vedanta Alumina.

■ Statement of Risk

We believe a sharp fall in zinc prices, which are linked to global economic growth, would be the key risk factor for Sterlite. The company may not, for whatever reason, be able to acquire the government stake in HZL and/or BALCO, which could affect the consolidation of operations into the future. Disruptions in power supply could lead to delays in projects and/or increases in capex requirements.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	59%	35%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	6%	14%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	0%
Sell	Sell	less than 1%	20%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

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Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

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UBS Securities India Private Ltd: Navin Gupta, CFA.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Sterlite Industries ^{1, 16, 20}	STRL.BO	Buy (CBE)	N/A	Rs116.65	18 Oct 2011

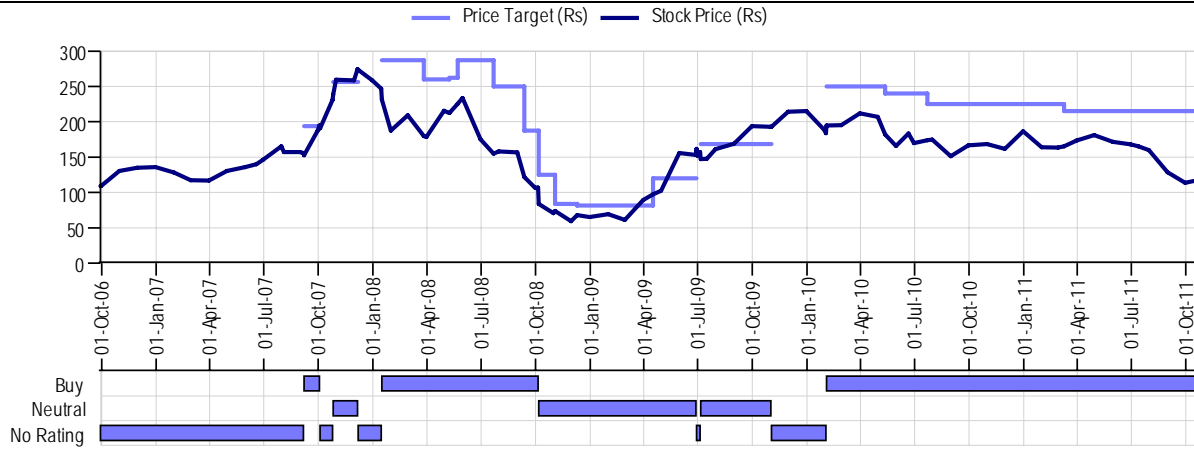
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Sterlite Industries (Rs)



Source: UBS; as of 18 Oct 2011

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