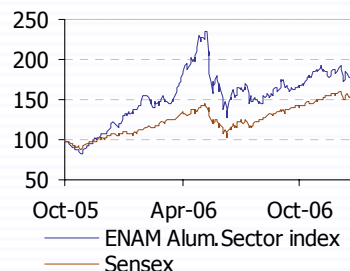
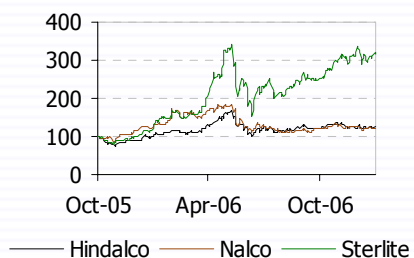


## ENAM Sector index vs BSE Sensex



Source: ENAM Research, Bloomberg

## Relative Performance



Source: ENAM Research, Bloomberg

# Aluminium Sector

Robust demand growth in China, resource tightness to support global aluminium fundamentals

## Sector Summary

Company	Price (Rs.)	Mkt cap (USD mn)	EPS (Rs.)		CAGR(%) 06-08	RoE (%)		P/E (x)		EV/EBITDA (x)		Target Price (Rs.)	Relative to Sector
			FY07E	FY08E		FY07E	FY08E	FY07E	FY08E	FY07E	FY08E		
Hindalco	175	4,577	23.1	26.1	42.0	24.2	20.9	7.6	6.7	4.3	3.6	290	Outperformer
Nalco	211	3,069	35.8	27.4	7.3	33.6	20.8	5.9	7.7	2.7	3.5	285	Underperformer
Sterlite	538	6,782	72.2	91.5	91.7	40.2	39.0	7.5	5.9	2.6	3.1	910	Outperformer

Source: ENAM estimates on fully diluted basis

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■ Sterlite	30

# Investment Summary

- **Chinese primary aluminium demand growth likely to be maintained at 14% pa till 2010 driven by huge consumption (automobile/transportation) boom**
- **The current alumina capacity build-up in China repeating the aluminium capacity build-up phenomenon a few years ago. However, the industry faces:**
  - Bauxite tightness and capital cost disadvantage in alumina - relative to capital cost in aluminium smelting
  - Rising energy prices
- **World aluminium industry to witness firm prices, owing to favourable demand growth and lower supply plagued by cost pressures – bauxite and energy**
  - Structurally higher pricing of alumina from current spot pricing (close to cash cost)
  - Structural shift underway, aluminium smelting is shifting to cheap bauxite and energy resources
- **Indian aluminium demand: In a nascent stage**
- **Indian aluminium companies, armed with bauxite and coal resources, are best placed to capitalize on growing demand:**
  - Outperformer: Hindalco/ Sterlite
  - Underperformer: Nalco on earnings decline

All RECOs are relative to sector

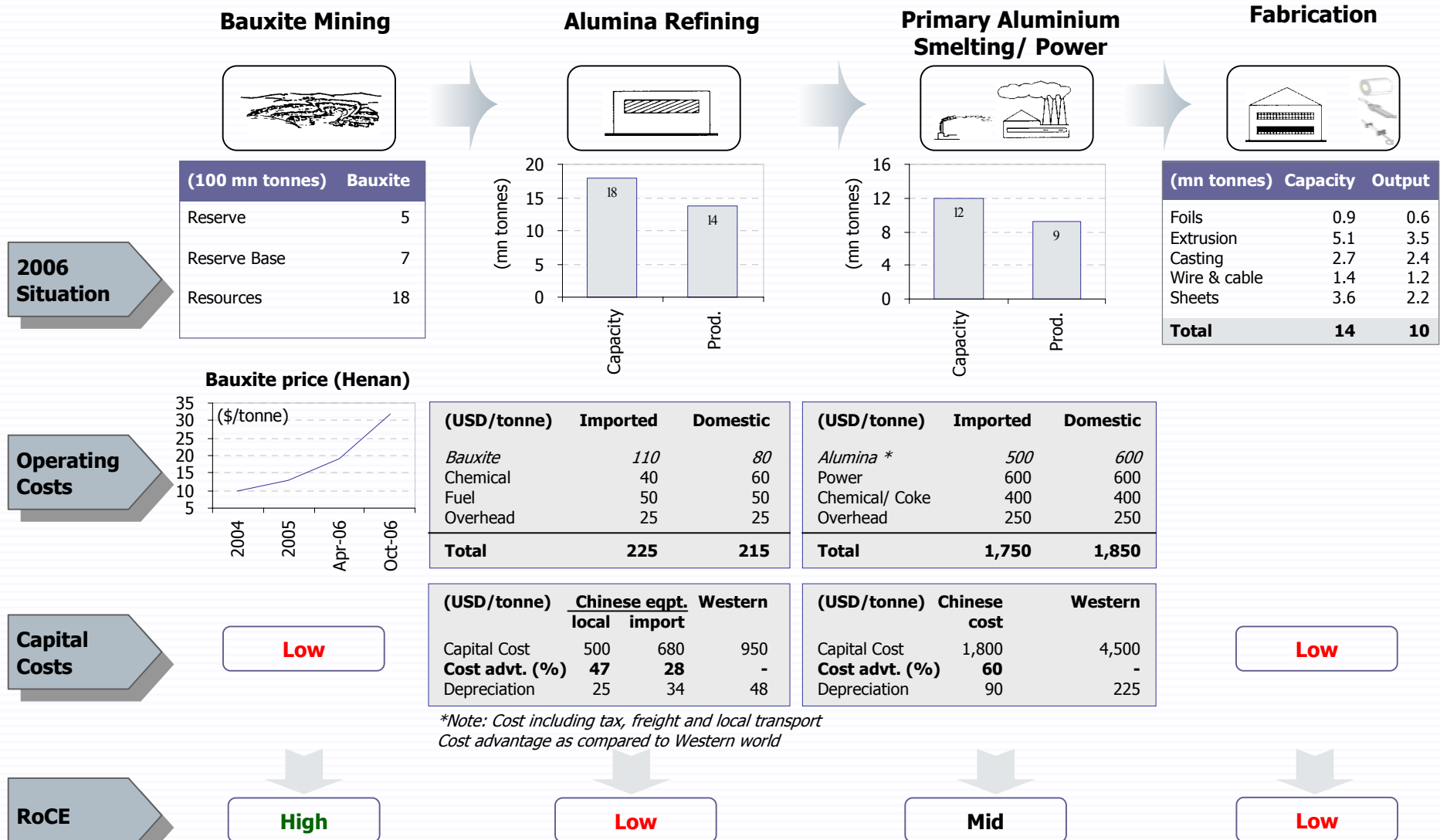


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# **Chinese Aluminium Industry**

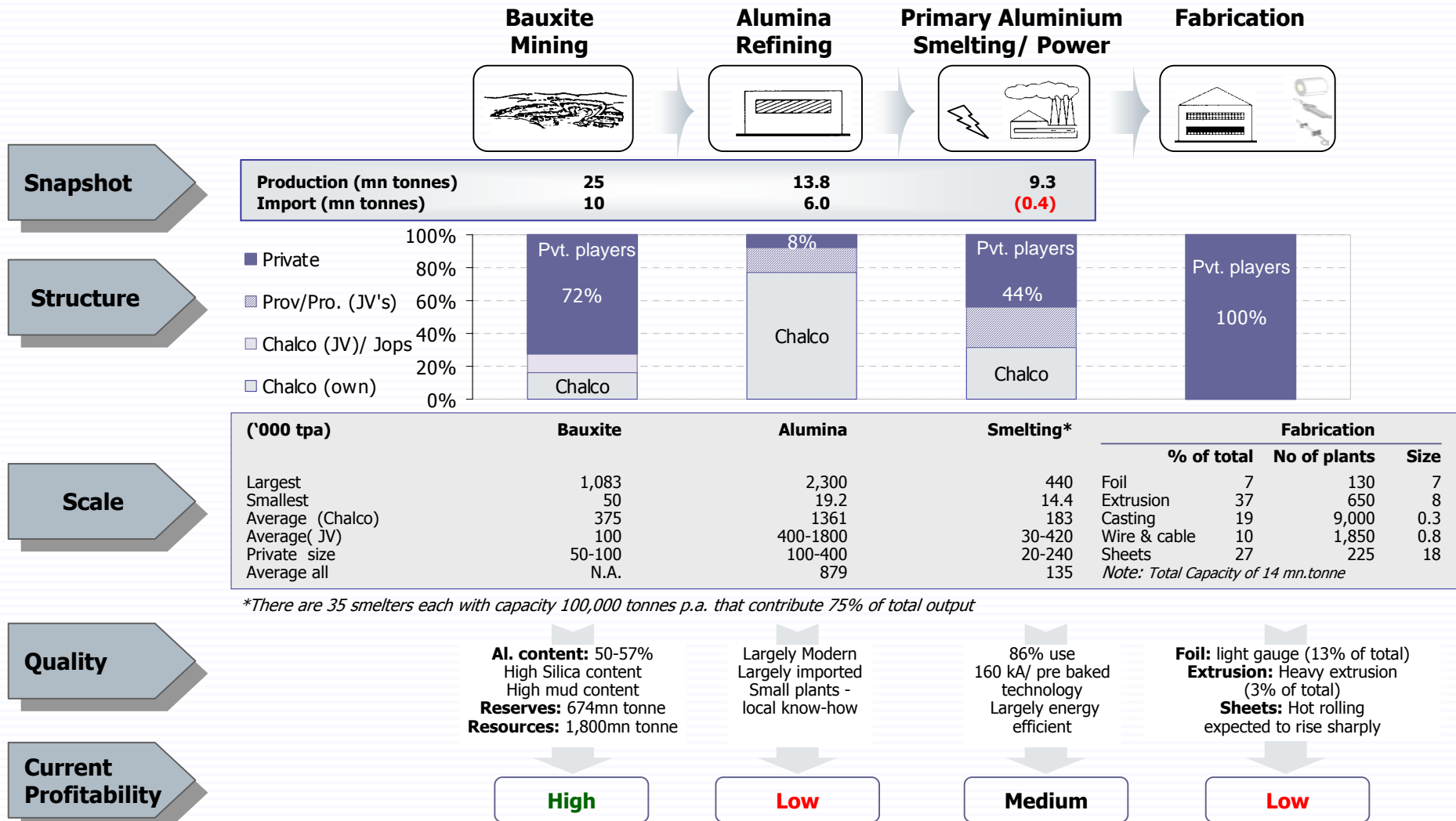
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# Snapshot: Aluminium value chain



Source: ENAM Research, Antaike

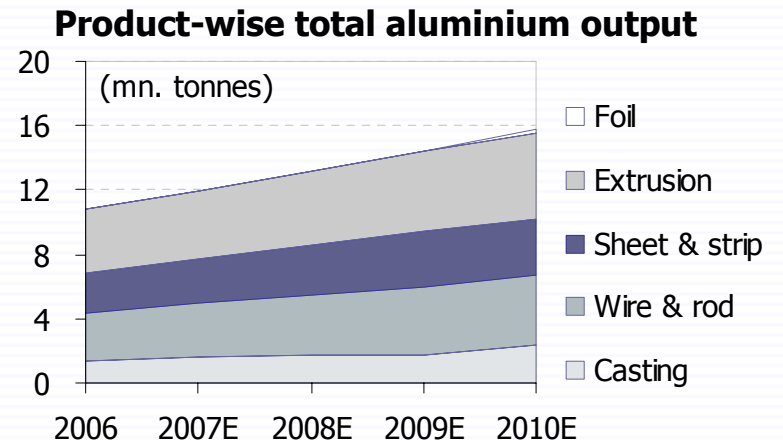
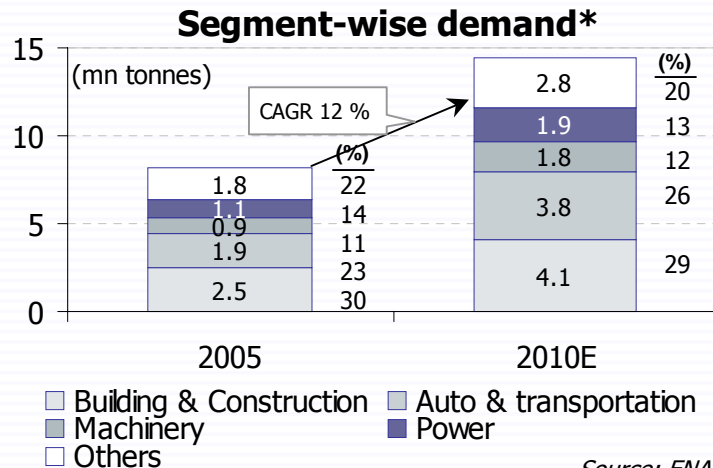
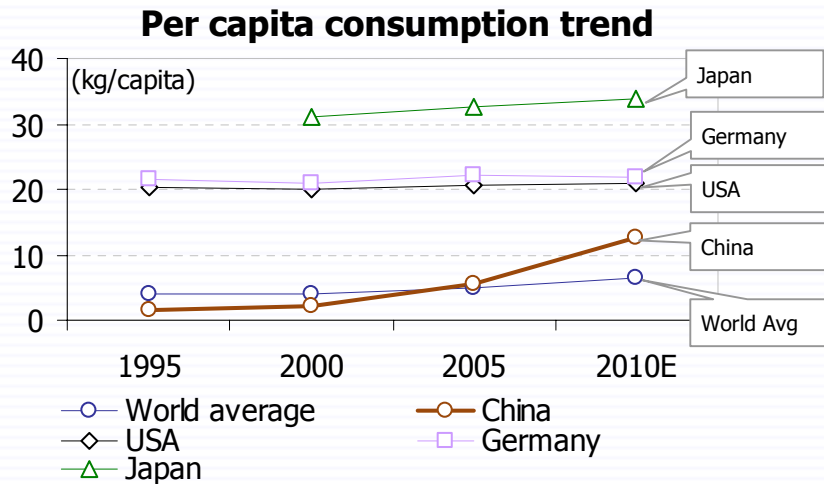
# Structure: Highly fragmented



Source: ENAM Research, Antaike

**Aluminium industry in the process of consolidating and alumina in the process of over-capacity build-up**

# Favourable demand outlook



- **Urbanisation rising further**
- **Transportation and machinery segment will outpace other segments**

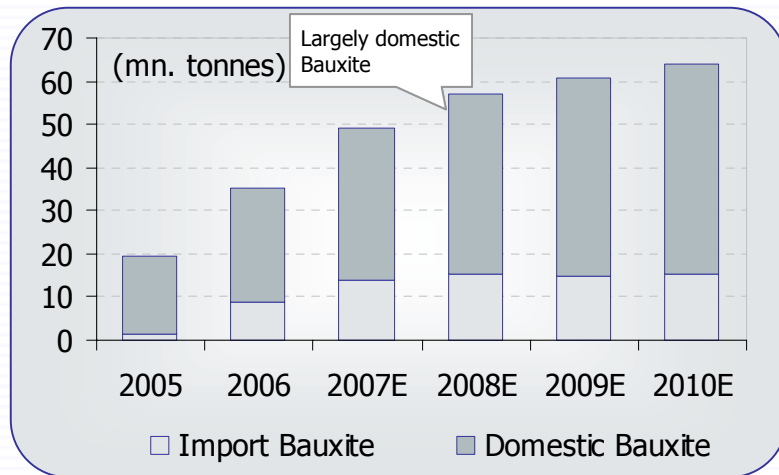
Source: ENAM Research, Antaike, Japan Aluminium Association

\* Demand Primary as well as secondary

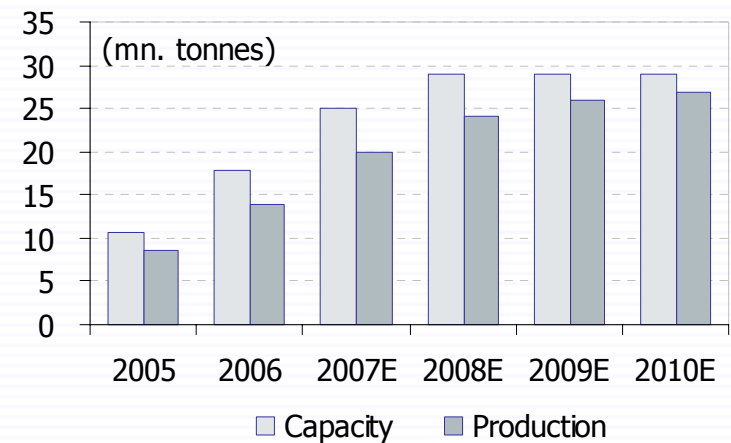
**While demand growth is likely to be strong, the industry has lined up huge capacity build-up**

# Capacity build-up : Alumina & Aluminium

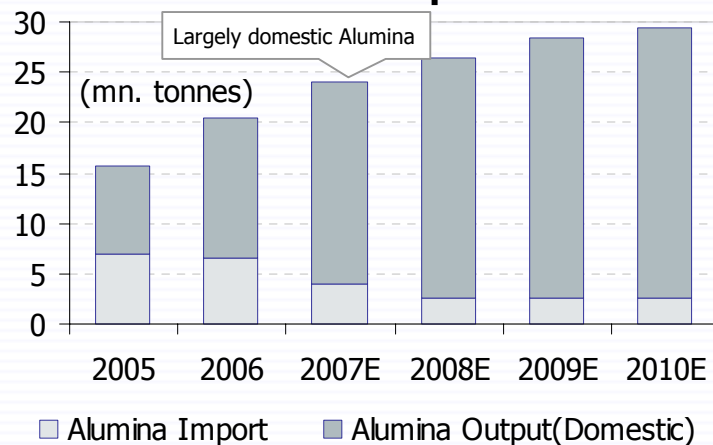
Demand for bauxite



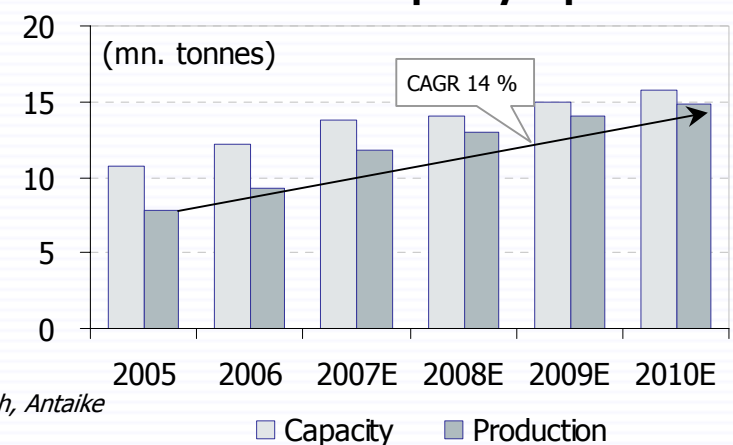
China Alumina production



Alumina requirement



Aluminum capacity & production



Source: ENAM Research, Antaike

**Planned capacity build-up in line with demand**



# Bauxite Resources: Wait & watch situation

## Bauxite

### Information: Circa 2003

(100 mn tonnes)	Bauxite
Reserve	5
Reserve Base	7
Resources	18

Source: 2003 Antaika

### Guangxi (Latest release)

(100 mn tonnes)	Bauxite
Proven Reserve	7.25
Combined Reserve	10

Source: Guangxi Development and Reform Commission

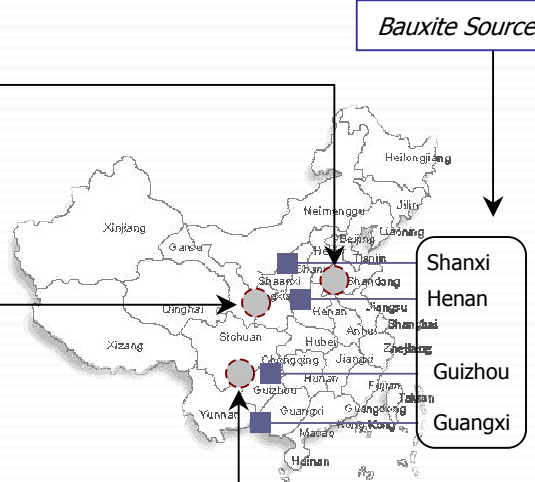
## New Alumina Refinery ('000 tonnes)

Chalco Shanxi branch	800
Chalco Zhongzhou branch	300
Luneng Jinbei	800
Mengxi	400
Wusheng	300

Chiping Huayu	3,200
Weiqiao	2,000
Nanshan	400
Lubei Chamistry	400
Kalman	800
Hulyuan	300
Chalco Henan branch	700
Wanji Xiangjing	400
Ylxian	200
Sanmenxia Dongfan	400

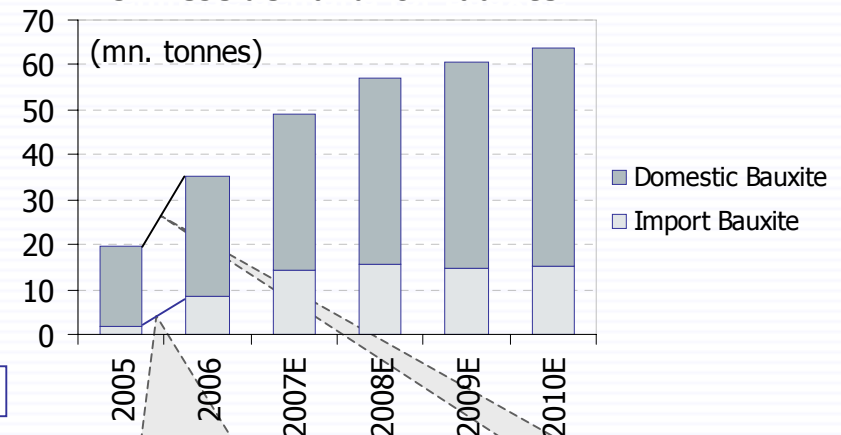
Chalco Guangxi branch	880
Guangxi Huayin branch	1,600
Chalco Guizhou branch	400
Chongqing Bosai	150
Dingtai	150

**Grand Total 14.6 mn tonnes**



Source: ENAM Research, Antaika

## Chinese demand for Bauxite



Imported Bauxite rose 4x. ~90% from Indonesia (largely from small private miners!)

Domestic Bauxite output rose 47%

## Expected resource life

(mn Tonnes)	Existing 2003	Guangxi (new finding)
Bauxite Reserve	700	725
Domestic Consumption FY08E	41.4	41.4
Reserves Life (Yrs)	16.9	17.5

**Reliability and sustainability of bauxite supply remains a question mark!**

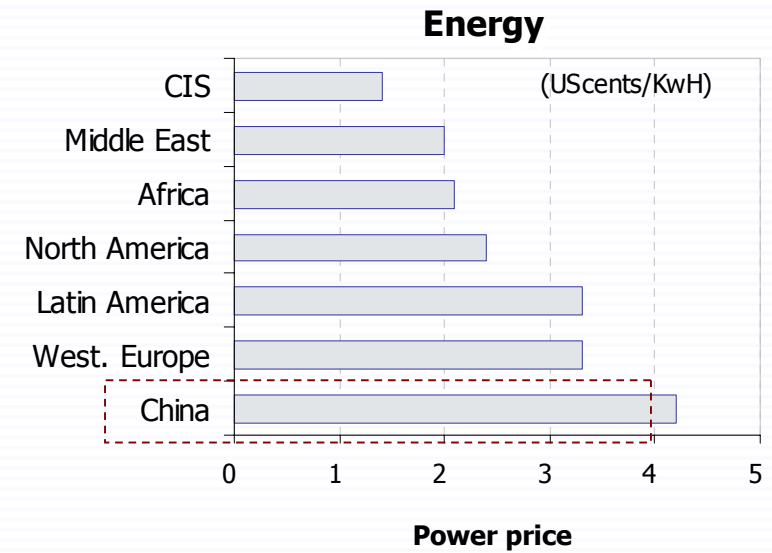
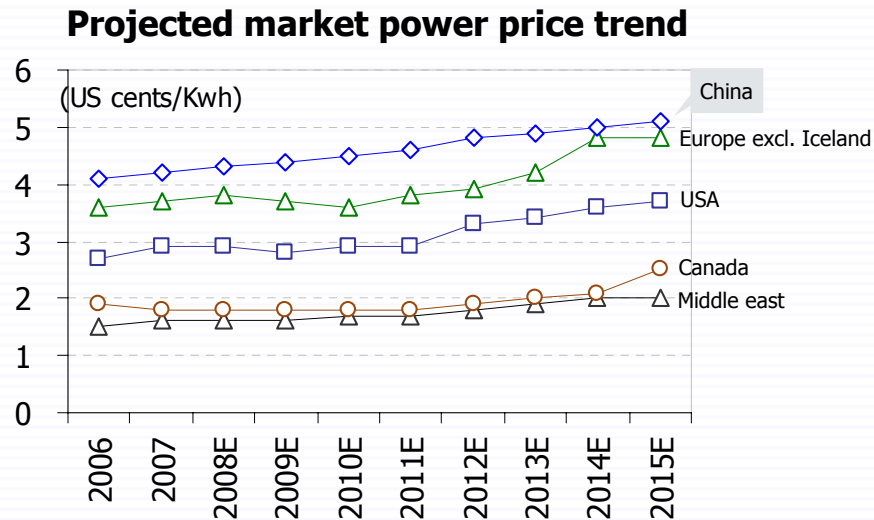
# Alumina : Relative capital cost disadvantage

	Alumina	Aluminium
<b>Technology</b>	Large projects: Import Small: Local	Local
<b>Greenfield capital cost: China</b>	USD650-700/ tonne	USD1,800/tonne
<b>Greenfield capital cost: Western World</b>	USD1,000/ tonne	USD4,500/tonne
<b>China cap cost advantage (%)</b>	30%	> 60%
<b>Operating Cost: China</b>	Bauxite: Marginally Lower cost Chemical & Fuel: Higher Cost	Imported / Domestic Alumina Power : High Cost
<b>ROCE: China</b>	<b>Even lower, due to relative capital cost disadvantage</b>	Low ROCE, due to high operating cost

Source: ENAM Research, Antaike

**Relative disadvantage in alumina – a big challenge for Chinese industry**

# Energy remains an issue



Source: ENAM Research, Antaike, EIA

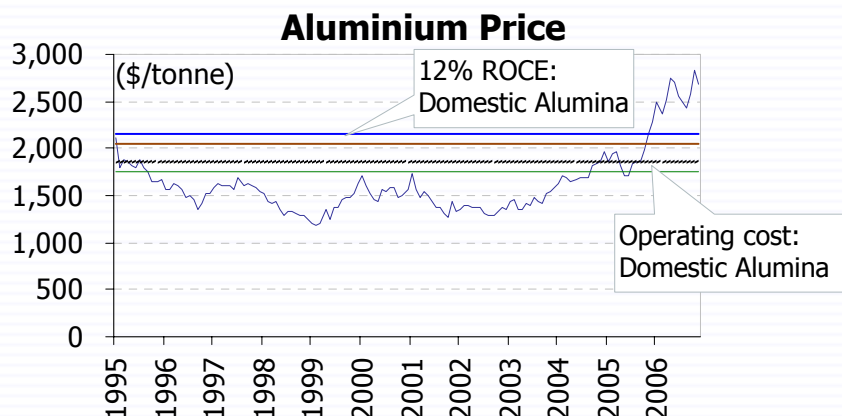
- ➔ **Power sources largely based on coal**
- ➔ **Power pricing uptrend in line with coal prices**
- ➔ **Tight demand-supply situation**

# Price cycle: Economics of Chinese Aluminium & Alumina

## Economics: Marginal players (Aluminium)

(USD/tonne)	Aluminium
	Domestic
Captive Power	No
Captive Alumina	No
Total Capital Cost	1,800
Operating Cost	1,850

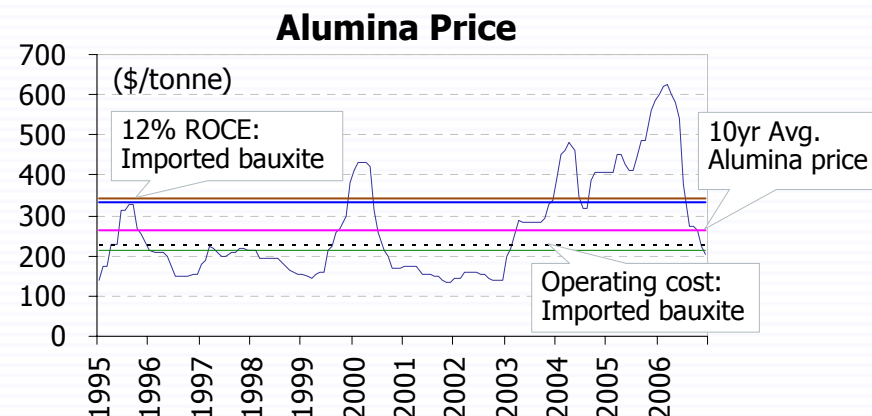
(USD/tonne)	Price Level @12% RoCE	
	Imported	Domestic
EBIT	216	216
*Depreciation @5%	90	90
EBITDA (adding the above two)	306	306
Cost of production	1,750	1,850
Aluminium price	2,056	2,156



## Economics: Marginal players (Alumina)

(USD/tonne)	Alumina
	Imported Domestic
Captive Bauxite	No No
Total Capital Cost	700 700
Operating Cost	225 215

(USD/tonne)	Price Level @12% RoCE	
	Imported	Domestic
EBIT	84	84
*Depreciation @5%	35	35
EBITDA (adding the above two)	119	119
Cost of production	225	215
Alumina price	344	334



Source: Bloomberg, ENAM Research, Antaiko



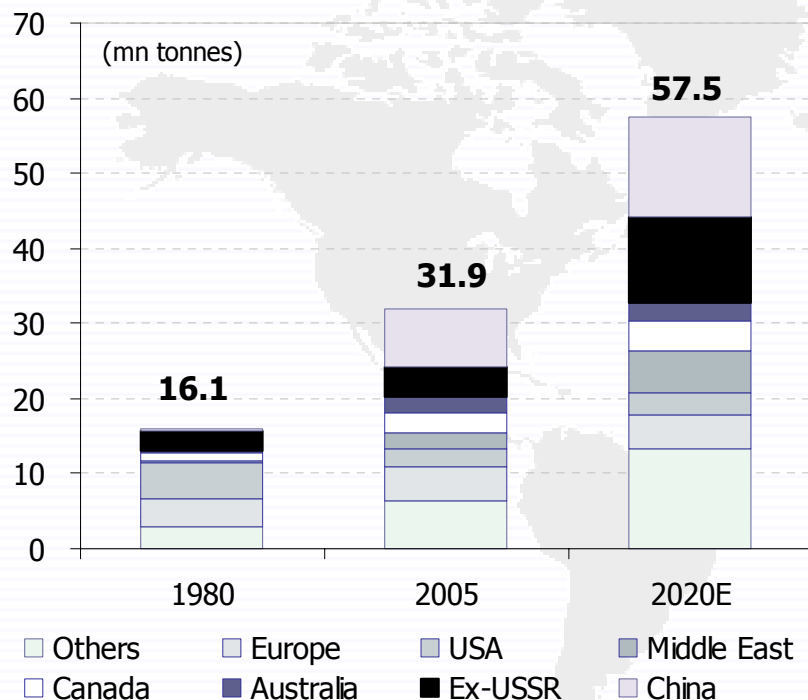
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# **Global demand-supply**

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# Global situation: Structural shift in supply

Aluminium supply by region



Supply constraints on account of limited resources

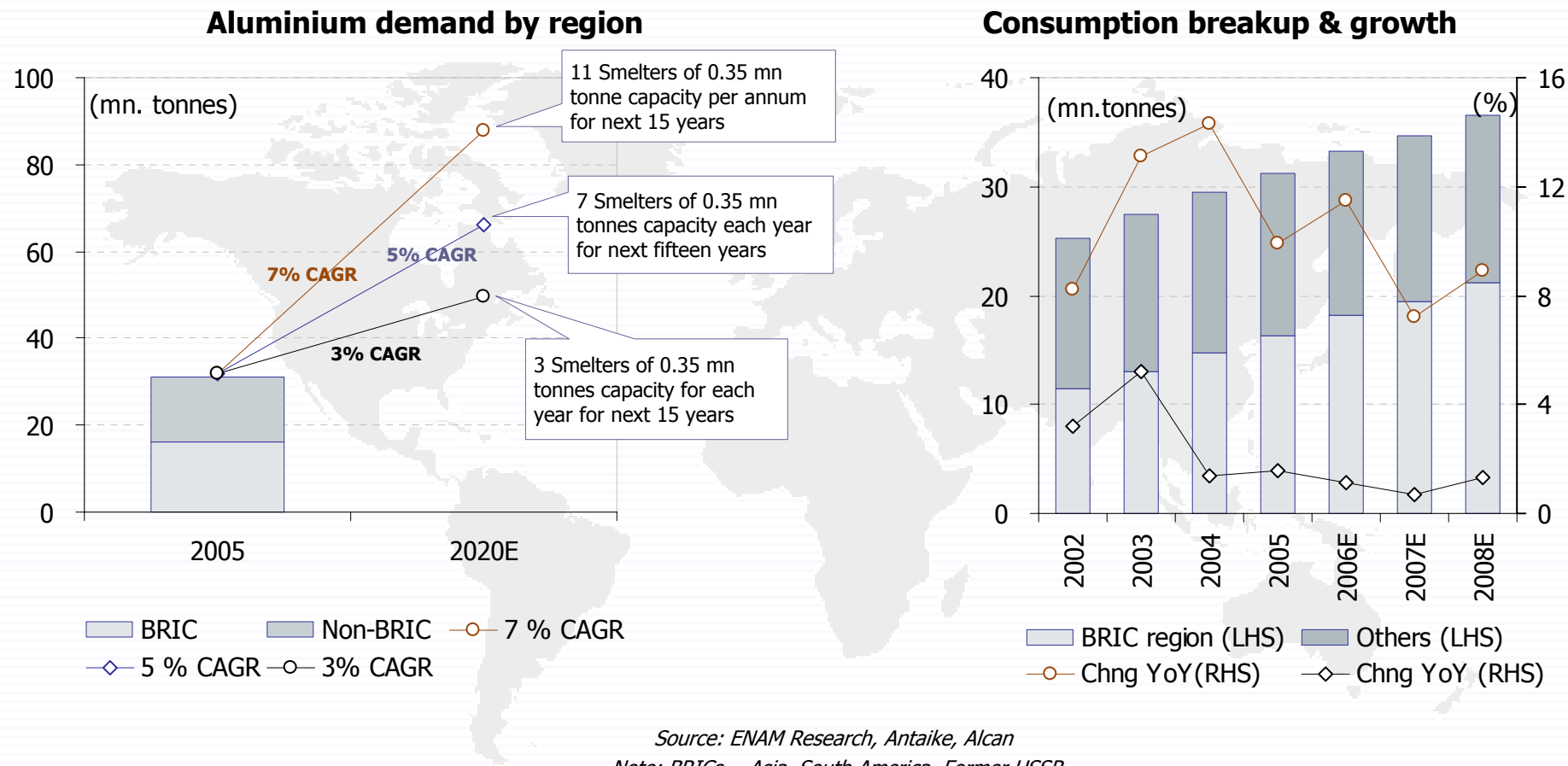
Resource Availability

	Bauxite/ Alumina	Power
China	Limited	Limited
Ex-USSR	Limited	Abundant
Australia	Abundant	Limited
Canada	Scarcity	Limited
Middle East	Scarcity	Abundant
USA	Scarcity	Limited
Europe	Scarcity	Scarcity
Others	Limited	Limited

Source: ENAM Research, Antaika, Japan Aluminium Association, Alcan  
 Note: BRICs - Asia, South America, Former USSR

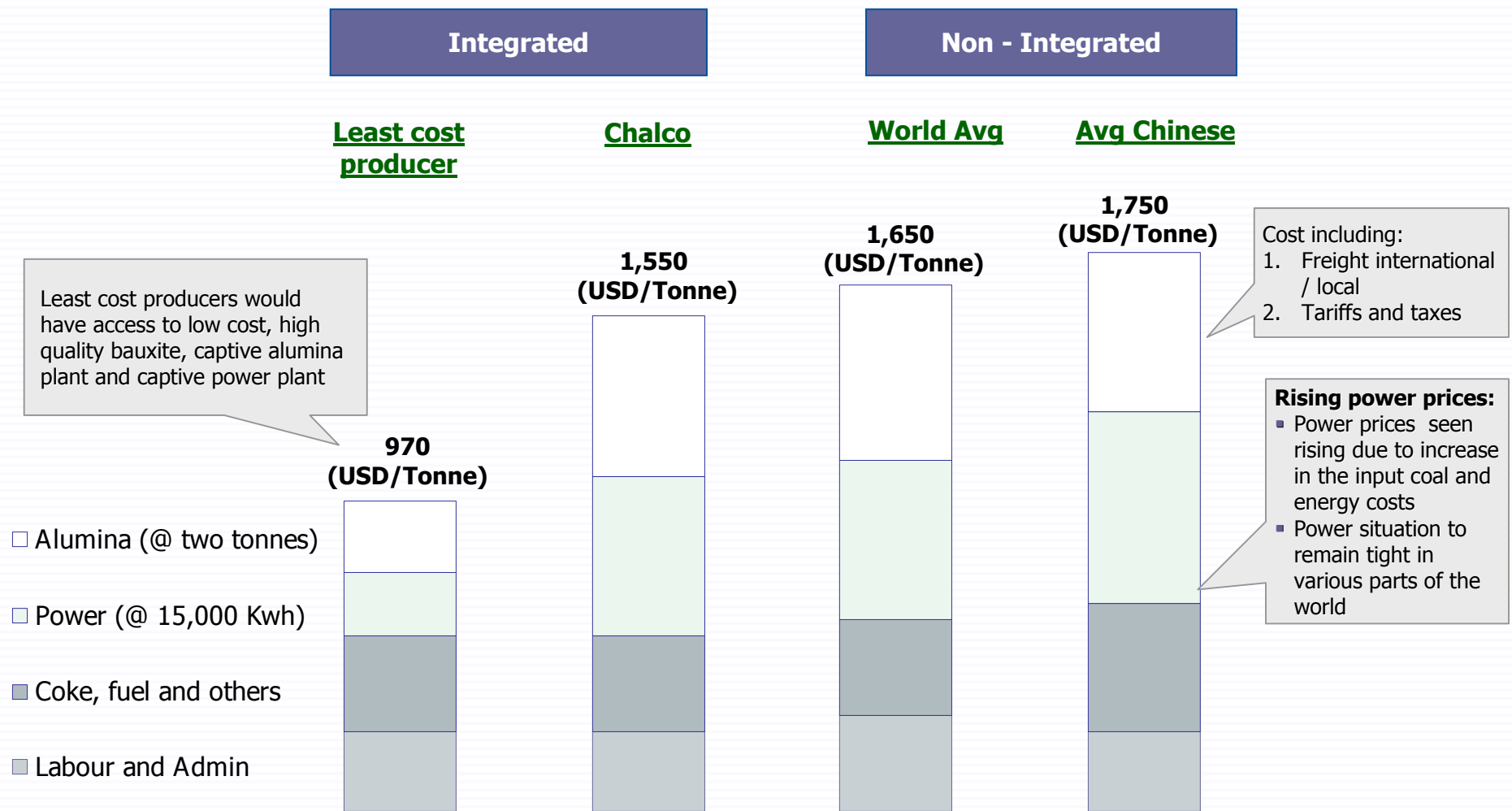
**Resource availability and relative capital cost advantages, expected to shift production balance to the BRIC region**

# Global situation: Demand growth from BRICs



**BRIC region growth to be fuelled by growth in construction and auto sectors**

# Comparative cost position

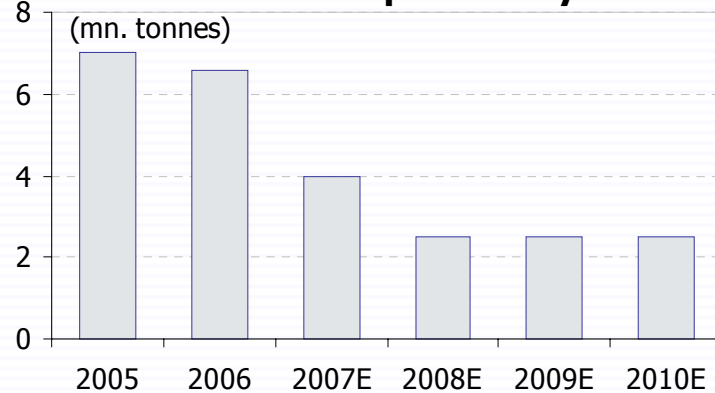


Source: United States Geological Survey (USGS), International Aluminium Institute (IAI), ENAM Research



# Alumina prices to remain subdued

## Chinese alumina imports likely to fall



Source: ENAM Research, USGS, IAI

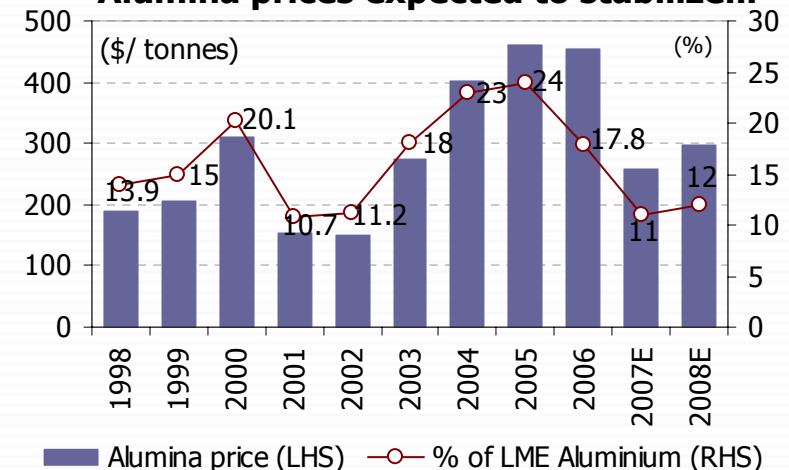
- **Chinese alumina imports likely to fall on surplus alumina production expected in next two years**
- **Prices seen normalizing to long-term average and return on capital employed**
- **We expect re-bounce from current spot level (close to cash cost ). Our spot alumina price forecast for CY07 is USD267/ tonne and USD 299/ tonne in CY08**

## BRICs, Asia, South America

(mn. tonnes)	2004	2005	2006E	2007E	2008E
Total Production	57	59.4	65.8	70.7	73.5
% Change YOY	3.3	4.5	10.7	7.5	3.9
Total Consumption	59	62.0	65.3	69.4	73.3
% Change YOY	6.9	5.6	5.3	6.3	5.5
Surplus/ (Deficit)	(1.9)	(2.6)	0.5	1.3	0.2
Avg. Alumina Spot Price	403	460	453	267	299

Source: ENAM Research, IAI

## Alumina prices expected to stabilize...



Source: ENAM Research, USGS, IAI

**Spot prices are likely to rebound strongly**

# Aluminium: Stable outlook

## ➤ Strong global demand growth of ~6.6% p.a in CY06E

- In CY07, demand may moderate to 4.2% on slower world growth
- BRICs consumption main growth driver

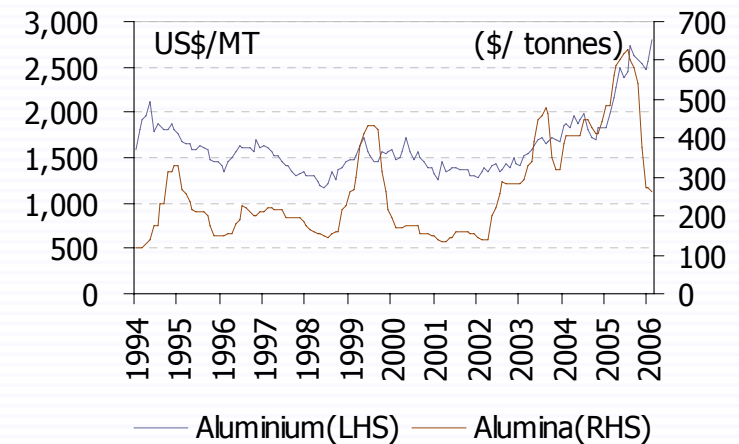
## ➤ Western world supply lagging on few shutdowns owing to:

- Higher energy prices, chemical and coke
- North America and Europe supply constraints
- Supply situation to improve in CY07 on new capacities in BRICs countries
- Supply to rise 5.3% in CY06 and 6.3% in CY07

## ➤ Deficit in CY06 could turn into a marginal surplus in CY07

## ➤ We expect aluminium prices in CY07 to moderate to USD2,340/ tonne on marginal surplus

Prices: Aluminium & Alumina



Source: Bloomberg

## BRICs, Asia, South America

('000 MT)	2004	2005	2006E	2007E	2008E
BRIC region	15,534	16,942	18,698	20,456	22,128
% Change YoY	11.6	9.1	10.4	9.4	8.2
Others	13,844	14,074	13,953	14,263	14,507
% Change YoY	3.1	1.7	(0.9)	2.2	1.7
<b>Total Production</b>	<b>29,377</b>	<b>31,016</b>	<b>32,651</b>	<b>34,719</b>	<b>36,635</b>
% Change YoY	7.4	5.6	5.3	6.3	5.5
BRIC region	14,833	16,295	18,173	19,477	21,203
% Change YoY	14.3	9.9	11.5	7.2	8.9
Others	14,673	14,902	15,068	15,174	15,377
% Change YoY	1.4	1.6	1.1	0.7	1.3
<b>Total Consumption</b>	<b>29,506</b>	<b>31,197</b>	<b>33,242</b>	<b>34,651</b>	<b>36,580</b>
% Change YoY	7.5	5.7	6.6	4.2	5.6
Surplus/Deficit	(128.9)	(180.9)	(591.0)	68.8	55.3
LME Aluminium (\$/Ton)	1,717	1,897	2,544	2,340	2,488

Source: ENAM Research, Antaike



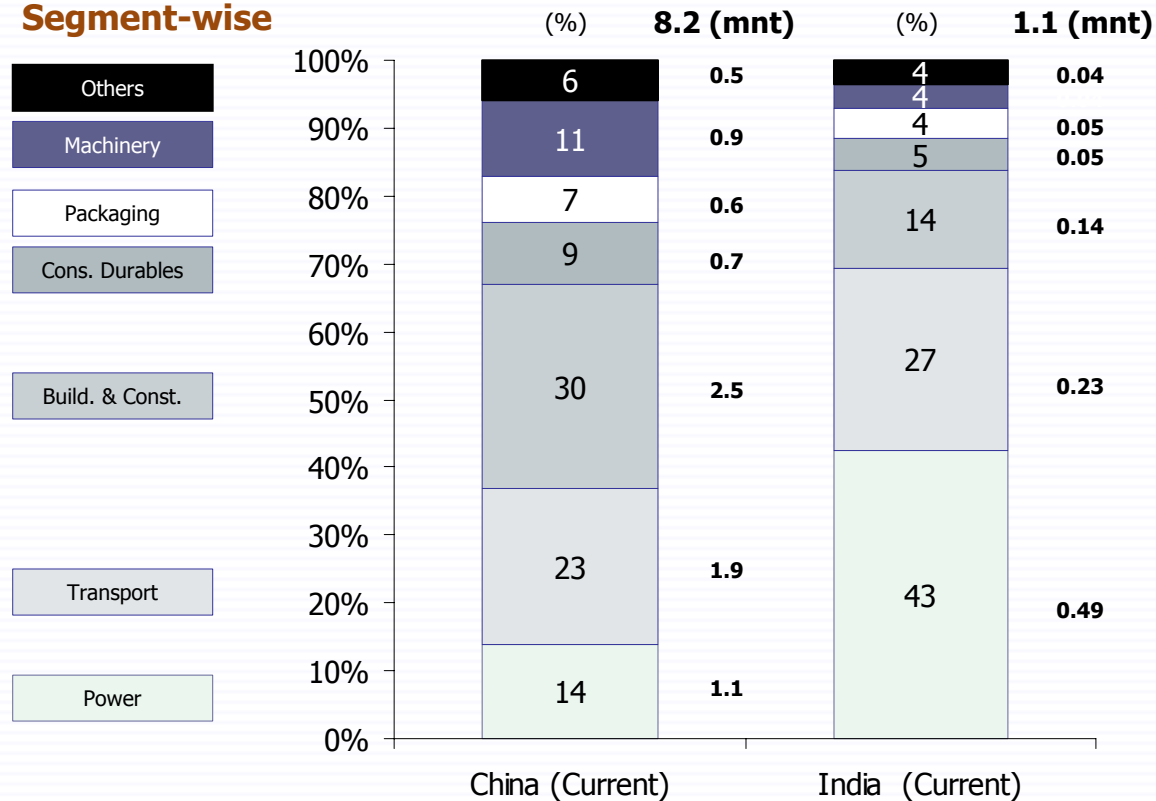
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## **Investment opportunities – Indian Aluminium Sector**

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# India: Evolving demand scenario

## Segment-wise



Source: ENAM Research, Antaike

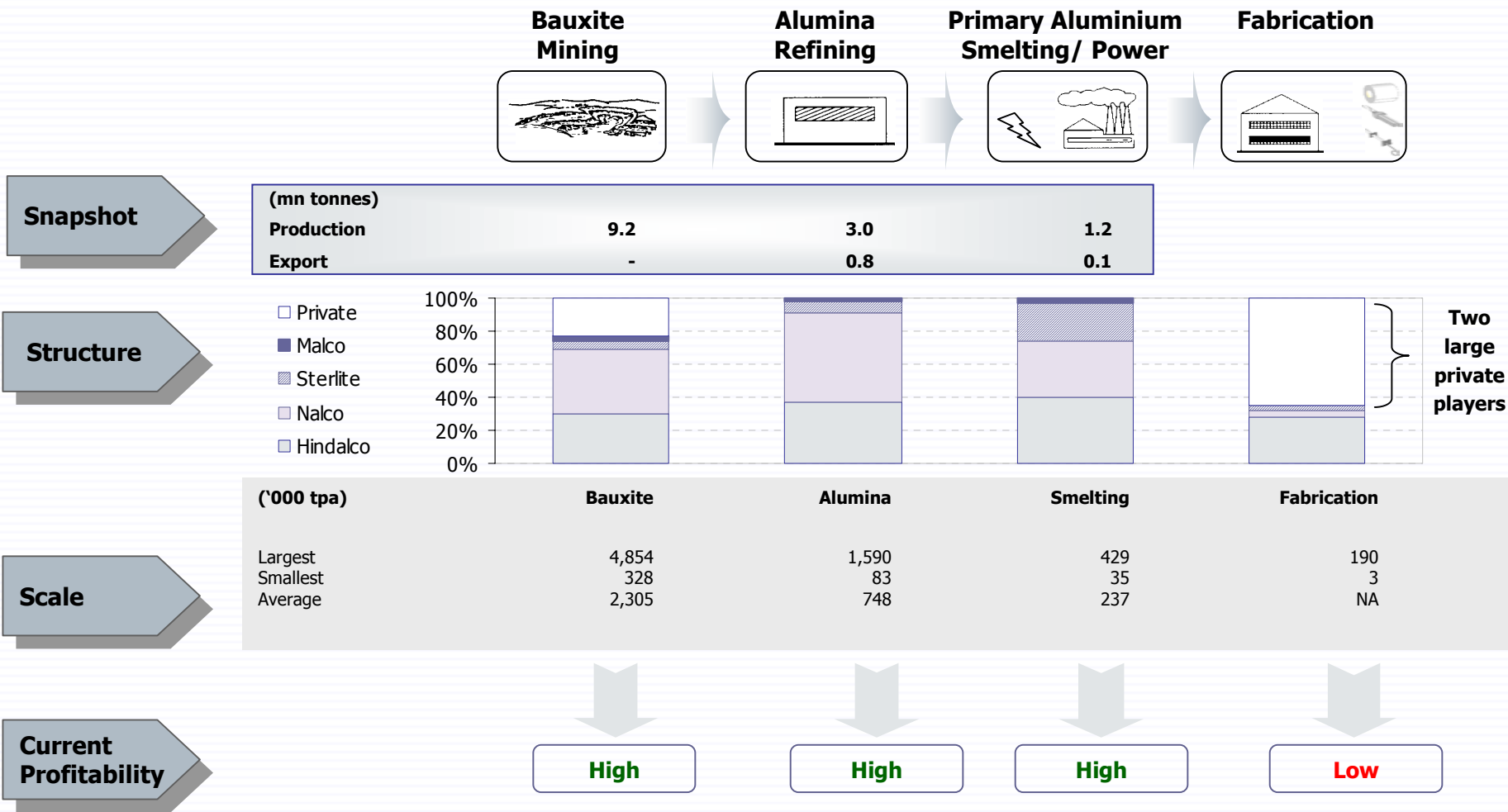
## Segmental analysis

(mn nos)	Annual Production	
	India	China
<b>Transportation</b>		
- Two wheeler	7	16
- Passenger Car	1.2	3.0
<b>Durable</b>		
- Refrigerator	2.8	31.7
- Washing Machinery	2.7	29.4
<b>Power (bn Kwh)</b>	<b>617</b>	<b>2,397</b>

Source: ENAM Research, Antaike, CMIE, Bloomberg

**Building, construction and automobile sectors to drive demand**

# Structure: Integrated and cost competitive



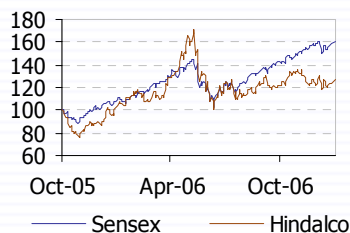
**Globally cost competitive and hugely scalable!**

**Stock Data**

No. of shares	: 1,159m
Market cap	: Rs.203bn
52 week high/low	: Rs. 251/ Rs.139
Avg. daily vol. (6mth)	: 5.1mn shares
Bloomberg code	: HNDL IN
Reuters code	: HALC.BO

**Shareholding (%) Sep-06 QoQ chg**

Promoters	:	26.8	0.0
FIIs	:	17.9	(1.5)
MFs / UTI	:	6.8	(0.2)
Banks / FIs	:	11.2	0.6
Others	:	37.4	1.1

**Relative Performance**

Source: ENAM Research, Bloomberg

**Financial summary**

Y/E Mar	Sales (Rs.mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	ChangeYoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2005	92,994	12,985	-	11.2	46	10.9	33.9	35.7	6.0	1.8
2006	110,808	15,017	-	12.9	16	14.1	17.4	16.8	8.4	2.1
2007E	188,378	26,816	22.6	23.1	79	7.6	24.2	21.3	4.3	2.5
2008E	203,000	30,261	20.2	26.1	13	6.7	20.9	19.5	3.6	2.5

Source: \*Consensus broker estimates, Company, ENAM estimates on fully diluted equity

# Hindalco Industries

**Rs.175**

Target Price: Rs.290  
Potential Upside: 66%

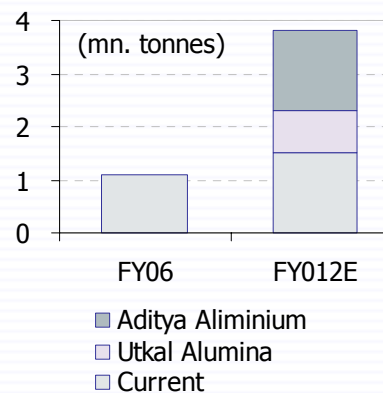
Relative to Sector: **Outperformer**

Investing in future growth

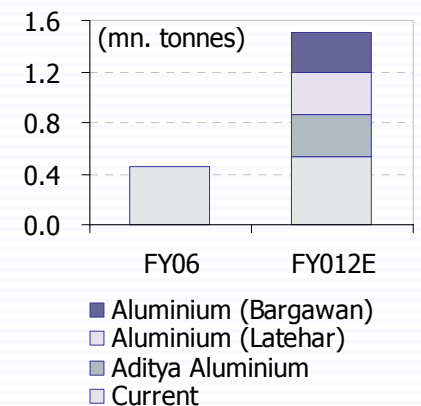
# Investment summary

- **Short to medium term: Volume growth + Product Mix + Cost Efficiencies**
- **Earnings growth through FY09 (on volumes despite cooling aluminium prices in FY08)**
  - Lower copper profits (~12% of total profits) on falling TCRC to be more than offset by rising aluminium profits
- **Large Greenfield expansion: ~4x in five years**
- **Cost of production to decline in line with captive coal mining/power and low cost alumina**
  - USD900/ tonne vs current USD1,100/ tonne
- **More than Rs.300bn capex, to be largely funded out of huge internal cash flows**
- **Attractive valuations: Sector Outperformer**

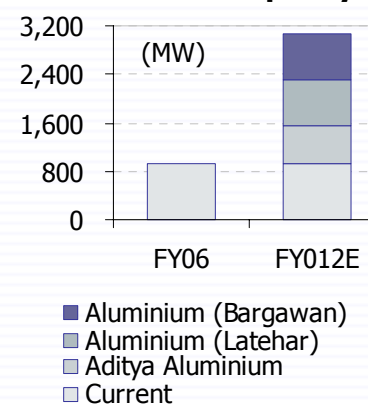
**Alumina capacity buildup**



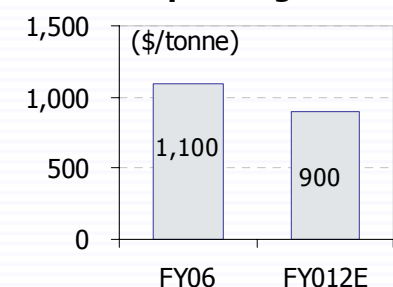
**Aluminium capacity buildup**



**Power capacity**



**Operating cost**



Source: Company, ENAM Research

# Company Financials

## Income statement

Y/E March (Rs. mn)	2005	2006	2007E	2008E
<b>Net sales</b>	<b>92,994</b>	<b>110,808</b>	<b>188,378</b>	<b>203,000</b>
Other operating income	2,239	2,119	2,129	2,139
<b>Total income</b>	<b>95,233</b>	<b>112,927</b>	<b>190,507</b>	<b>205,139</b>
Cost of goods sold	68,077	83,546	140,994	150,916
Contribution (%)	29	27	20	20
Advt/Sales/Distrn O/H	4,391	4,368	5,484	6,855
<b>Operating Profit</b>	<b>22,765</b>	<b>25,013</b>	<b>44,028</b>	<b>47,369</b>
Other income	2,301	1,924	3,308	10,111
<b>PBIDT</b>	<b>25,066</b>	<b>26,937</b>	<b>47,337</b>	<b>57,480</b>
Depreciation	4,633	5,167	5,840	6,526
Interest	1,700	2,252	3,187	8,332
<b>Pre-tax profit</b>	<b>18,733</b>	<b>19,518</b>	<b>38,309</b>	<b>42,622</b>
Tax provision	5,748	4,501	11,493	12,360
<b>Adjusted PAT</b>	<b>12,985</b>	<b>15,017</b>	<b>26,816</b>	<b>30,261</b>
E/o income / (Expense)	308	1,539	-	-
<b>Reported PAT</b>	<b>13,294</b>	<b>16,556</b>	<b>26,816</b>	<b>30,261</b>

## Key ratios

Y/E March (%)	2005	2006	2007E	2008E
<b>Sales growth</b>	<b>20.3</b>	<b>19.2</b>	<b>70.0</b>	<b>7.8</b>
<b>OPM</b>	<b>24.5</b>	<b>22.6</b>	<b>23.4</b>	<b>23.3</b>
Oper. profit growth	29.8	9.9	76.0	7.6
COGS / Net sales	71.5	74.0	74.0	73.6
Overheads/Net sales	4.6	3.9	2.9	3.3
Depreciation / G. block	5.3	5.0	5.1	5.0
Effective interest rate	8.9	5.2	3.8	7.2
Net wkg.cap / Net sales	0.1	0.2	0.2	0.2
Net sales / Gr block (x)	1.1	1.2	1.7	1.7
<b>RoCE</b>	<b>35.7</b>	<b>16.8</b>	<b>21.3</b>	<b>19.5</b>
Net Debt / equity (x)*	0.1	0.1	(0.0)	(0.1)
Effective tax rate	30.7	23.1	30.0	29.0
<b>RoE</b>	<b>33.9</b>	<b>17.4</b>	<b>24.2</b>	<b>20.9</b>
Payout ratio (Div/NP)	15.9	14.9	10.8	9.5
<b>EPS (Rs.)</b>	<b>11.2</b>	<b>12.9</b>	<b>23.1</b>	<b>26.1</b>
EPS Growth	45.6	15.6	78.6	12.8
CEPS (Rs.)	15.2	17.4	28.2	31.7
<b>DPS (Rs.)</b>	<b>1.8</b>	<b>2.1</b>	<b>2.5</b>	<b>2.5</b>

Note: \*Net Debt/ Equity negative when cash exceeds debt

Source: Company, ENAM Research



# Company Financials

## Balance sheet

Y/E March (Rs. mn)	2005	2006	2007E	2008E
<b>Total assets</b>	<b>125,869</b>	<b>157,370</b>	<b>256,986</b>	<b>290,230</b>
Gross block	86,729	104,183	114,512	130,512
Net fixed assets	56,035	67,828	72,317	81,791
CWIP	13,230	8,329	18,000	28,000
Investments	10,553	12,217	12,217	12,217
Wkg. cap. (excl cash)	15,150	29,880	34,933	36,584
Cash / Bank balance^	30,901	39,116	119,519	131,637
<b>Capital employed</b>	<b>125,869</b>	<b>157,370</b>	<b>256,986</b>	<b>290,230</b>
Equity capital	928	1,160	1,160	1,160
Reserves	75,645	94,842	124,457	163,201
Borrowings	38,000	49,034	119,034	113,534
Others	11,296	12,334	12,334	12,334

Note: ^Cash/ bank includes liquid investments

## Cash flow

Y/E March (Rs.mn)	2005	2006	2007E	2008E
<b>Sources</b>	<b>130,501</b>	<b>36,668</b>	<b>105,099</b>	<b>39,882</b>
Cash profit	28,914	21,222	32,657	36,787
(-) Dividends	2,120	2,473	2,884	2,884
Retained earnings	26,794	18,749	29,773	33,903
Issue of equity	10,219	5,515	5,683	11,366
Borrowings	38,000	11,034	70,000	(5,500)
Others	55,489	1,370	(357)	113
<b>Applications</b>	<b>130,501</b>	<b>36,668</b>	<b>105,099</b>	<b>39,882</b>
Capital expenditure	73,898	12,059	20,000	26,000
Investments	10,553	1,664	0	0
Net current assets	15,150	14,730	5,053	1,650
Change in cash	30,901	8,216	80,045	12,232

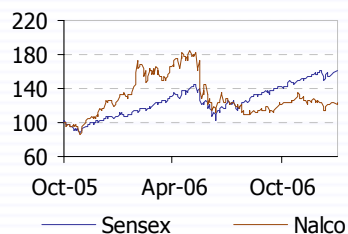
Source: Company, ENAM Research

**Stock Data**

No. of shares : 644m  
 Market cap : Rs.136bn  
 52 week high/low : Rs. 335/ Rs.185  
 Avg. daily vol. (6mth) : 677,400 shares  
 Bloomberg code : NACL IN  
 Reuters code : NALU.BO

**Shareholding (%) Sep-06 QoQ chg**

Promoters	:	87.2	0.0
FIIs	:	1.6	(1.3)
MFs / UTI	:	0.6	(0.3)
Banks / FIs	:	6.1	1.6
Others	:	4.6	0.1

**Relative Performance**

Source: ENAM Research, Bloomberg

**Financial summary**

Y/E Mar	Sales (Rs.mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	ChangeYoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2005	42,362	11,896	-	18.5	64	9.4	28.1	41.4	4.6	4.5
2006	49,820	15,325	-	23.8	29	12.3	28.9	45.3	6.3	5.0
2007E	62,930	23,044	32.7	35.8	50	5.9	33.6	50.9	2.7	6.0
2008E	53,633	17,656	23.9	27.4	(23)	7.7	20.8	31.2	3.5	6.0

Source: \*Consensus broker estimates, Company, ENAM estimates

# Nalco

Relative to Sector: **Underperformer**

**Rs.211**

Target Price: Rs.285  
Potential Upside: 35%

Short term volume growth concerns

# Investment summary

- **Subdued Alumina price and lower aluminium to impact FY08 earnings**
  - Volumes to remain flat
  - Lower spot and contract alumina prices
  - Subdued aluminium prices in FY08
- **Sustainable and scalable business model**
  - One of the cheapest cost players in the world - Alumina and Aluminium
  - Improving product mix
- **Earnings growth peaked out in the medium term:**
  - Revising our FY07 to Rs 35.8 and FY08 EPS to Rs 27.4
- **Attractive valuations:**
  - Highly profitable and huge cash balance
  - Sector Underperformer

# Company Financials

## Income statement

Y/E March (Rs. mn)	2005	2006	2007E	2008E
<b>Net sales</b>	<b>41,041</b>	<b>48,887</b>	<b>61,700</b>	<b>52,873</b>
Other operating income	1,321	933	1,229	759
<b>Total income</b>	<b>42,362</b>	<b>49,820</b>	<b>62,930</b>	<b>53,633</b>
Cost of goods sold	17,462	20,722	24,889	24,960
Contribution (%)	61	60	62	54
Advt/Sales/Distrn O/H	1,950	2,698	2,108	2,319
<b>Operating Profit</b>	<b>22,951</b>	<b>26,401</b>	<b>35,932</b>	<b>26,354</b>
Other income	516	1,371	2,348	3,457
<b>PBIDT</b>	<b>23,467</b>	<b>27,772</b>	<b>38,280</b>	<b>29,811</b>
Depreciation	4,611	3,772	3,417	3,260
Interest	606	0	0	0
<b>Pre-tax profit</b>	<b>18,250</b>	<b>24,000</b>	<b>34,863</b>	<b>26,551</b>
Tax provision	6,354	8,674	11,818	8,894
<b>Adjusted PAT</b>	<b>11,896</b>	<b>15,325</b>	<b>23,044</b>	<b>17,656</b>
E/o income / (Expense)	444	297	-	-
<b>Reported PAT</b>	<b>12,340</b>	<b>15,622</b>	<b>23,044</b>	<b>17,656</b>

## Key ratios

Y/E March (%)	2005	2006	2007E	2008E
<b>Sales growth</b>	<b>32.5</b>	<b>19.1</b>	<b>26.2</b>	<b>(14.3)</b>
<b>OPM</b>	<b>55.9</b>	<b>54.0</b>	<b>58.2</b>	<b>49.8</b>
Oper. profit growth	46.9	15.0	36.1	(26.7)
COGS / Net sales	41.2	41.6	39.6	46.5
Overheads/Net sales	4.6	5.4	3.4	4.3
Depreciation / G. block	5.2	4.2	3.8	3.8
Effective interest rate	18.5			
Net wkg.cap / Net sales	0.03	0.04	0.02	0.01
Net sales / Gr block (x)	0.5	0.6	0.7	0.6
<b>RoCE</b>	<b>41.4</b>	<b>45.3</b>	<b>50.9</b>	<b>31.2</b>
Net Debt / equity (x)*	(0.2)	(0.4)	(0.5)	(0.5)
Effective tax rate	34.8	36.1	33.9	33.5
<b>RoE</b>	<b>28.1</b>	<b>28.9</b>	<b>33.6</b>	<b>20.8</b>
Payout ratio (Div/NP)	23.8	20.6	16.8	21.9
<b>EPS (Rs.)</b>	<b>18.5</b>	<b>23.8</b>	<b>35.8</b>	<b>27.4</b>
EPS Growth	64.3	28.8	50.4	(23.4)
CEPS (Rs.)	25.6	29.6	41.1	32.5
DPS (Rs.)	4.5	5.0	6.0	6.0

Note: \*Net Debt/ Equity negative when cash exceeds debt

Source: Company, ENAM Research

# Company Financials

## Balance sheet

Y/E March (Rs. mn)	2005	2006	2007E	2008E
<b>Total assets</b>	<b>53,503</b>	<b>65,344</b>	<b>84,522</b>	<b>98,313</b>
Gross block	87,846	89,612	89,934	86,934
Net fixed assets	41,390	39,445	36,349	30,089
CWIP	2,066	2,322	8,000	25,000
Wkg. cap. (excl cash)	2,494	1,640	1,038	11
Cash / Bank balance^	7,552	21,937	39,135	43,212
<b>Capital employed</b>	<b>53,503</b>	<b>65,344</b>	<b>84,522</b>	<b>98,313</b>
Equity capital	6,443	6,443	6,443	6,443
Reserves	40,535	52,484	71,662	85,452
Others	6,525	6,417	6,417	6,417

Note: ^Cash/ bank includes liquid investments

## Cash flow

Y/E March (Rs.mn)	2005	2006	2007E	2008E
<b>Sources</b>	<b>9,902</b>	<b>15,614</b>	<b>22,596</b>	<b>17,050</b>
Cash profit	16,931	18,990	26,462	20,916
(-) Dividends	2,931	3,673	4,407	4,407
Retained earnings	14,000	15,318	22,055	16,509
Issue of equity	-	-	-	-
Borrowings	(6,544)	-	-	-
Others	2,446	296	541	541
<b>Applications</b>	<b>9,902</b>	<b>15,614</b>	<b>22,596</b>	<b>17,050</b>
Capital expenditure	1,118	2,083	6,000	14,000
Net current assets	2,216	(854)	(602)	(1,027)
Change in cash	6,569	14,385	17,198	4,077

Source: Company, ENAM Research

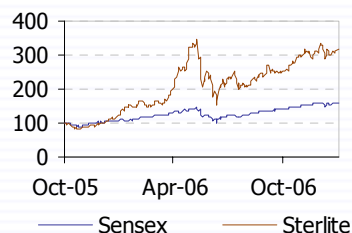
**Stock Data**

No. of shares : 559mn\*  
 Market cap : Rs.306bn  
 52 week high/low : Rs.614/ Rs.215  
 Avg. daily vol. (6mth) : 3.0mn 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 (%) Sep-06 QoQ chg**

Promoters	:	79.1	0.0
FII's	:	5.8	0.0
MFs / UTI	:	2.1	0.0
Banks / FIs	:	2.7	0.2
Others	:	10.3	(0.2)

**Relative Performance**

Source: ENAM Research, Bloomberg

**Financial summary - Consolidated**

Y/E Mar	Sales (Rs.mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	ChangeYoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2005	73,286	7,368		10.9	24	13.2	19.1	16.4	8.4	0.7
2006	131,820	16,889	-	24.9	129	14.1	25.6	29.5	7.3	1.4
2007E	261,816	48,998	73.8	72.2	190	7.5	40.2	63.6	2.6	3.0
2008E	250,935	62,090	70.0	91.5	27	5.9	39.0	51.1	3.1	3.0

Source: \*Consensus broker estimates, Company, # ENAM estimates on fully diluted equity post ADS

# Sterlite Industries

Relative to Sector: **Outperformer**

**Rs.538**

Target Price: Rs.910

Potential Upside: 69%

Using supernormal profits to build sustainability  
 – huge re-rating upside!

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January 04, 2007

# Investment summary

- **Sterlite getting clearly positioned as owner of all operating assets and cash flows of Vedanta group**
  - Seeking to go up to 100% in Balco and 91% in Hindustan Zinc by buying Government of India stake at “fair” value
  - Setting up coal-based power plant - among the first few super critical/ mega plants cleared
  - Proposed ADR will allow acceleration of earnings and corporate actions
- **The company has used “super normal” profits to move into a permanently higher orbit!**
  - Rapid expansion of volumes across all business lines using large cash flows
  - At attractive capital costs, high ROE’s and speedy implementation
- **Earnings set to be stable and diversified, reducing volatility from commodity cycles**
  - Our revised fully diluted EPS for FY07 is Rs.72.2 and FY08 EPS is Rs.91.5
  - P/E multiple set to expand as sustainable ROE stays close to 40%
- **Valuations are extremely attractive: Sector Outperformer**
  - Current market cap  $\simeq$  Potential “free cash” by 2011- a 4 year payback
  - At CMP Rs.538, the stock trades at EV/ EBITDA of 3.1x FY08E, P/E of 5.9x FY08E on a fully diluted basis
  - Valuations reflect fear of profits falling, instead of sustainability and high ROE
  - Zinc (~70% of profits in FY07) is the dominant driver. Yet, even if Zinc prices halve by FY11 (i.e fall by 15% p.a till FY11), overall profits will still rise
  - Target price of Rs.910 on ~10x FY08E earnings, relative valuations at a premium to global peers on better growth prospects

# Company Financials: Sterlite Industries

## Income statement

Y/E March (Rs. mn)	2005	2006	2007E	2008E
<b>Net sales</b>	<b>72,525</b>	<b>131,272</b>	<b>261,397</b>	<b>250,544</b>
Other operating income	762	549	419	391
<b>Total income</b>	<b>73,286</b>	<b>131,820</b>	<b>261,816</b>	<b>250,935</b>
Cost of goods sold	54,172	91,903	148,714	147,263
Contribution (%)	27	32	43	41
Advt/Sales/Distrn O/H	2,981	2,490	4,052	4,505
<b>Operating Profit</b>	<b>16,133</b>	<b>37,427</b>	<b>109,050</b>	<b>99,166</b>
Other income	1,330	2,815	2,179	5,314
<b>PBIDT</b>	<b>17,463</b>	<b>40,241</b>	<b>111,229</b>	<b>104,481</b>
Depreciation	2,977	5,269	5,904	6,906
Interest	1,343	2,353	3,420	2,158
<b>Pre-tax profit</b>	<b>13,143</b>	<b>32,619</b>	<b>101,906</b>	<b>95,417</b>
Tax provision	3,147	10,165	31,266	29,877
(-) Minority Interests	2,628	5,568	21,642	4,260
Asso. (Vedanta Alumina)	-	4	0	811
<b>Adjusted PAT</b>	<b>7,368</b>	<b>16,889</b>	<b>48,998</b>	<b>62,090</b>
E/o income / (Expense)	(828)	(101)	-	-
<b>Reported PAT</b>	<b>6,540</b>	<b>16,788</b>	<b>48,998</b>	<b>62,090</b>

## Key ratios

Y/E March (%)	2005	2006	2007E	2008E
<b>Sales growth</b>	<b>25.5</b>	<b>81.0</b>	<b>99.1</b>	<b>(4.2)</b>
<b>OPM</b>	<b>22.2</b>	<b>28.5</b>	<b>41.7</b>	<b>39.6</b>
Oper. profit growth	16.4	132.0	191.4	(9.1)
COGS / Net sales	73.9	69.7	56.8	58.7
Overheads/Net sales	4.1	1.9	1.5	1.8
Depreciation / G. block	4.2	4.6	5.1	5.1
Effective interest rate	2.7	4.5	7.8	6.8
Net wkg.cap / Net sales	0.1	0.1	0.1	0.1
Net sales / Gr block (x)	1.1	1.4	2.3	2.0
<b>RoCE</b>	<b>16.4</b>	<b>29.5</b>	<b>63.6</b>	<b>51.1</b>
Net Debt / equity (x)*	1.0	0.2	(0.7)	(0.5)
Effective tax rate	23.9	31.2	30.7	31.3
<b>RoE</b>	<b>19.1</b>	<b>25.6</b>	<b>40.2</b>	<b>39.0</b>
Payout ratio (Div/NP)	6.8	4.7	4.2	3.3
<b>EPS (Rs.)</b>	<b>10.9</b>	<b>24.9</b>	<b>72.2</b>	<b>91.5</b>
EPS Growth	23.9	129.2	190.1	26.7
CEPS (Rs.)	15.2	32.6	80.9	101.7
DPS (Rs.)	0.7	1.4	3.0	3.0

Note: \*Net Debt/ Equity negative when cash exceeds debt

Source: Company, ENAM Research



# Company Financials: Sterlite Industries

## Balance sheet

Y/E March (Rs. mn)	2005	2006	2007E	2008E
<b>Total assets</b>	<b>102,510</b>	<b>136,863</b>	<b>275,545</b>	<b>234,900</b>
Gross block	71,017	114,400	116,793	135,441
Net fixed assets	39,241	77,887	74,624	90,234
CWIP	28,353	7,611	8,206	1,206
Investments	-	1,653	9,180	15,375
Wkg. cap. (excl cash)	8,084	15,237	31,605	28,608
Cash / Bank balance^	26,833	34,475	151,929	99,476
<b>Capital employed</b>	<b>102,510</b>	<b>136,863</b>	<b>275,545</b>	<b>234,900</b>
Equity capital	549	559	1,357	1,357
Reserves	53,861	76,921	164,655	150,690
Borrowings	53,529	51,872	35,799	28,072
Others/Inc.Cap. Res.	(5,428)	7,511	73,733	54,780

^ Cash/ bank includes liquid investments

## Cash flow

Y/E March (Rs.mn)	2005	2006	2007E	2008E
<b>Sources</b>	<b>38,588</b>	<b>37,969</b>	<b>144,586</b>	<b>61,863</b>
Cash profit	13,453	30,136	76,499	72,478
(-) Dividends	443	796	2,036	2,036
Retained earnings	13,010	29,340	74,463	70,442
Issue of equity	21,394	1,074	89,657	-
Borrowings	7,559	(1,657)	(16,074)	(7,726)
Others	(3,376)	9,212	(3,461)	(852)
<b>Applications</b>	<b>38,588</b>	<b>37,969</b>	<b>144,586</b>	<b>61,863</b>
Capital expenditure	30,218	23,173	3,237	15,516
Investments	-	-	7,527	6,195
Net current assets	905	7,153	16,368	(2,997)
Chg in Minorities/ Asso.*	-	-	-	95,602
Change in cash	7,465	7,642	117,454	(52,453)

\*Outflow for acquisition of additional stake in HZL & equity contribution for Sterlite Energy

Source: Company, ENAM Research

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<b>Disclosure of interest statement (As of Jan 3, 2007)</b>	<b>Hindalco</b>	<b>Nalco</b>	<b>Sterlite</b>
1. Analyst ownership of the stock	Yes	No	Yes
2. Firm ownership of the stock	Yes	No	No
3. Directors ownership of the stock	Yes	No	Yes
4. Investment Banking mandate	No	No	No
5. Broking relationship	No	No	No

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