

RESULTS REVIEW

Share Data

Market Cap	Rs. 712.0 bn
Price	Rs. 847.20
BSE Sensex	17,231.11
Reuters	STRL.BO
Bloomberg	STLT IN
Avg. Volume (52 Week)	0.8 mn
52-Week High/Low	Rs. 902.2 / 234
Shares Outstanding	840.4 mn

Valuation Ratios

Year to 31 March	2010E	2011E
EPS (Rs.)	44.4	75.0
EPS Growth (%)	(9.9)%	68.8%
PER (x)	19.1x	11.3x
EV/ Sales (x)	3.8x	2.9x
EV/ EBITDA (x)	16.5x	10.1x

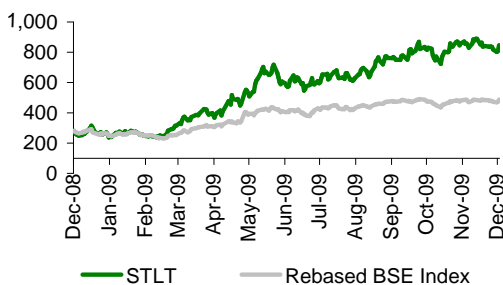
Shareholding Pattern (%)

Promoters	52
FII's	13
Institutions	8
Public & Others	27

Holding >1% (Non-Promoter)

Life Insurance Corporation of India	2.1
Bhadram Janhit Shalika	2.1
ICICI Prudential Life Insurance Co. Ltd	2.1

Relative Performance



Sterlite Industries Ltd

Hold

Economic recovery helps Sterlite post a strong qoq performance

In Q2'10, Sterlite Industries Ltd.'s (SIL's) net sales declined by 7.7% yoy to Rs. 60.9 bn. The Company reported a yoy increase in production of Copper (12.3%) and Zinc/Lead (14%) but Aluminium production was down (29.7%) due to complete ramp down of BALCO plant 1 smelter. EBITDA plunged by 26.3% yoy to Rs. 13.7 bn, primarily on account of a steep decline in non-ferrous metal realisations. However, the LME Copper (Cu), Aluminium (Al) and Zinc prices have recovered sharply from the lows of last year, driven by the expected recovery in the global economy and the strong demand from China. Going forward, we continue to hold a positive outlook for the Company, on the back of a sharp recovery in the metal prices. However, we believe the stock is fairly valued at the Current Market Price (CMP) of Rs. 847 and thus we reiterate our Hold rating on the stock.

Metal prices to remain stable: The LME Aluminium prices have rallied sharply since February 2009, driven by China's State Reserve Bureau's (SRB's) restocking and an expected recovery in the economy. However, we do not expect further rally in the LME Aluminium prices in the near term, especially with the LME inventory piling up. On the other hand, LME Copper prices have rebounded sharply from the low levels witnessed in December 2008, driven by a strong demand for the metal in China and brighter outlook for the global economy. Although we do not expect any substantial increase in the LME prices from the current levels, we have upwardly revised our base-metals average realisation estimates for the Company following the recent rally in the LME prices. Thus, we expect Cu, Al, and Zinc realisation to be ~USD 5,650 per tonne, ~USD 1,835 per tonne and ~USD 2,000 per tonne, respectively in FY10.

Key Figures (Consolidated)

Quarterly Data	Q2'09	Q1'10	Q2'10	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	65,938	45,371	60,855	(7.7)%	34.1%
EBITDA	18,522	10,209	13,654	(26.3)%	33.7%
Adj. Net Profit	12,855	6,727	9,783	(23.9)%	45.4%
Margins(%)					
EBITDA	28.1%	22.5%	22.4%		
NPM	19.5%	14.8%	16.1%		

Per Share Data (Rs.)

Adjusted EPS	18.1	9.5	11.6	(35.8)%	22.6%
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Result Highlights

For Q2'10, SIL's net sales declined 7.7% yoy to Rs. 60.9 bn, primarily on the back of the steep decline in non-ferrous metal realisations. EBITDA plunged 26.3% yoy to Rs. 13.7 bn, and the EBITDA margin declined by 5.7 pts to 22.4% due to lower realisations. The adjusted net profit decreased by 23.9% yoy to Rs. 9.8 bn.

Segment details	Q2'09	Q1'10	Q2'10	YoY%	QoQ%
Sales (Rs. mn)					
Copper	34,585	21,760	34,314	(0.8)%	57.7%
Aluminium	11,172	6,146	6,290	(43.7)%	2.3%
Zinc & Lead	17,212	14,892	17,679	2.7%	18.7%
EBIT (Rs. Mn)					
Copper	4,692	940	1,719	(63.4)%	82.8%
Aluminium	2,269	750	691	(69.5)%	(7.9)%
Zinc & Lead	9,040	7,010	9,922	9.7%	41.5%
EBIT Margin (%)					
Copper	13.6%	4.3%	5.0%		
Aluminium	20.3%	12.2%	11.0%		
Zinc & Lead	52.5%	47.1%	56.1%		

Segmental Highlights

Copper: For Q2'10, the Cu segment's top line declined marginally by 0.8% yoy to Rs. 34.3 bn and the EBIT declined by 63.4% to Rs. 1.7 bn. The decline in the sales and the operating profit was primarily due to a sharp fall in by-product realisations. In October 2009, SIL announced a 400 ktpa brownfield copper smelter expansion project at Tuticorin, at a capital expenditure of Rs. 23 bn.

Aluminium: Al production from BALCO for Q2'10 declined by 29.7% yoy to 90,846 tonnes primarily on account of the complete ramp down of the BALCO plant-1 smelter. The top line declined 43.7% yoy to Rs. 6.3 bn and EBIT declined by a massive 69.5% yoy, mainly on account of a decline in realisations, during Q2'10, the average LME aluminium price was \$1,819 per tonne, a decrease of 35% compared with the corresponding prior quarter.

Zinc: In Q2'10, the zinc segment's (HZL) top line increase 2.7% yoy to Rs. 17.7 bn and EBIT increased by 9.7% yoy. During the period, the Zinc and Lead refined metal production volume increased by 14% yoy to 192,517 tonnes. The positive impact of higher volumes and rupee depreciation on

sales and EBIDTA was more than offset by the sharp decline in the zinc and lead LME prices and lower by-product realization.

Key Figures (Consolidated)

Year to March	FY07	FY08	FY09	FY10E	FY11E	CAGR
(Figures in Rs mn, except per share data)						(FY09-11E)
Net Sales	241,733	247,054	211,442	208,661	271,260	13.3%
EBITDA	96,474	78,682	47,041	48,260	78,439	29.1%
Adj. Net Profit	43,988	42,422	34,929	31,488	53,137	23.3%
Margins(%)						
EBITDA	39.9%	31.8%	22.2%	23.1%	28.9%	
NPM	18.2%	17.2%	16.5%	15.1%	19.6%	
Per Share Data (Rs.)						
Adjusted EPS	78.8	59.9	49.3	44.4	75.0	23.3%
PER (x)	5.9x	11.9x	7.2x	19.1x	11.3x	

Valuation

SIL is a diversified company with operations in non-ferrous metals and the Power sector. Thus, we have valued SIL by using the Sum-of-the-Parts (SOTP) methodology.

We have valued Hindustan Zinc, BALCO, and Sterlite Industries (standalone businesses) by using the DCF methodology. SEL has been valued by using the Return on Equity (RoE) method, and Vedanta Aluminium Ltd. (VAL) has been valued by using the estimated book values.

SOTP Valuation	Rs./Share	Valuation Method
Sterlite Industries (standalone)	233	DCF Valuation
BALCO	41	DCF Valuation
Hindustan Zinc	369	DCF Valuation
SEL	136	ROE Method
VAL	23	3.5x estimated book value
Cash	90	
Total Value Per Share	892	

At the CMP, SIL's stock is trading at a forward P/E of 19.1x and 11.3x for FY10 and FY11 earnings, respectively. Our SOTP-based valuation of Rs. 892 does not provide any substantial upside potential from the CMP. Based on our valuation, we believe that the stock is fairly valued, and thus, we give a Hold rating to the stock.

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