

Sterlite Industries Ltd

INR:627

Results inline with estimates...

BUY

Revenues inline with estimates: Sterlite Industries reported sales of Rs 4,537 crores in Q1 FY09, a decline of 21% over corresponding quarter last year due to almost 30-35% fall in LME prices of base metals; however it has increased by 5% sequentially due to revival in LME prices that we have seen since the beginning of this year. On standalone basis sales was at 2,364 crores, a downside of 20% over Q1 FY09 but an upside of 4% sequentially.

Cost reduction initiatives help achieve higher margins sequentially: Consolidated EBITDA for the quarter stood at Rs 1,021 crores, a decline of 45% over corresponding quarter last year due to lower realizations on metal sales as well as byproduct sales; however it has increased by 22% over Q4FY09. Cost reduction initiatives taken by company during the second half of the last year when the base metals prices were at their lowest is showing its results now. Company reported a PAT of Rs 673 crores on consolidated basis, down 42% y-o-y but up 12% q-o-q. This includes a share of Rs 71 crores in the profits of VAL.

Aluminium: Company has completely ramped down production from BALCO Unit I due to higher cost of production and selling excess power of 270 MW on merchant basis, realizing Rs 5.5-6 per unit, which is more profitable. Due to the shut down and fall in realizations, aluminium sales at Rs 615 crores is down 47% y-o-y and 24% q-o-q. EBIT has improved sequentially from a loss of Rs 49 crores in Q4 FY09 to a profit of Rs 75 crores, however it has declined by 81% over corresponding quarter last year.

Copper: Performance of the company in the copper segment suffered due to lower TC/RC margins at US\$ 12/pound compared to historical average margins of US\$ 20-22 per pound and lower by products realizations (phosphoric & sulphuric acid).

Zinc & Lead: HZL remains the main value driver for the company. In the zinc & lead segment Revenues at Rs 1,489 crores was down 8% y-o-y but up 19% q-o-q. Fall in realization of almost 30-35% was compensated to a large extent by higher volumes. EBIT at Rs 701 crores was down 25% y-o-y due to lower realizations on metal as well as by-products; however it was up 38% sequentially.

Cash & Cash equivalents: As of June 30, 2009 consolidated cash and cash equivalents for the company stood at Rs 18,500 crores with debt of Rs 8,200 crores on balance sheet, so company had net cash surplus of Rs 10,300 crores. In the month of July company raised \$1.6 billion through ADS offering (\$1.5 billion announced plus \$100 million through green shoe option) and the above stated cash balance does not include proceeds of the offering.

Looking forward: Base metals prices have revived from their bottom led by China demand and stoppage of destocking by developed countries. We believe that base metal prices would be stable at current levels and do not see any significant upside in this financial year, as at higher levels of LME prices, smelters in the upper range of cost spectrum will start production there by increasing supply and putting downward pressure on prices.

Valuation: Sterlite's strength lies in its strong balance sheet and lowest cost of operations; with companies foray in to power business its profitability will go up further from next financial year. We value the firm by SOTP method which gives us a valuation of Rs 734 per share and recommend buy rating on the stock.

Key Financials

Rs. Crore

Particulars	FY08	FY09	FY10E	FY11E
Revenues	25,047	21,448	19,164	25,708
EBITDA	8,210	5,008	5,283	8,501
Net Profit	4,400	3,540	3,431	5,698
EPS	65.1	50.0	48.4	80.4
EV/EBITDA	4.6	7.0	6.5	3.8
P/E	11.0	12.5	12.9	7.8
P/BV	3.8	1.2	1.0	0.8
ROE	16.6%	13.3%	11.4%	16.6%
ROCE	26.6%	15.3%	13.5%	18.2%

Source : Company data, KRC Research



Price Outlook (INR): 734

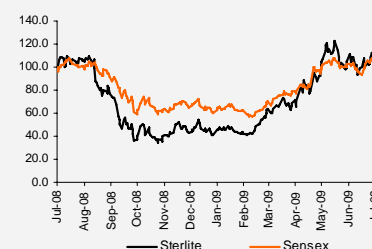
Market Data July 30, 2009

Shares outs (Cr)	70.85
Equity Cap (Rs. Cr)	141.7
Mkt Cap (Rs. Cr)	44,408
52 Wk H/L (Rs)	954 / 165
Avg Vol (1yr avg)	4,330,374
Face Value (Re)	2
Bloomberg Code	STLT IN

Market Info:

SENSEX	15388
NIFTY	4571

Price Performance



Share Holding pattern (%)

Particulars	Mar-09	Jun-09	Chg
Promoters	61.2	61.7	+0.5
Institutions	8.3	7.4	-0.9
FII	8.6	10.4	+1.8
Public/Other	21.9	20.5	-1.4
Total	100	100	0.0

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Other Key Highlights

Production Summary:

- Following are the Production figures for the company under different metal segments:

Particulars	Q1FY10	Q1FY09	Q4FY09	% y-o-y change	% q-o-q change
Aluminium	72,056	88,989	85,000	-19%	-15%
Copper cathodes	78,189	66,461	88,000	15%	-11%
Refined Zinc	139,315	126,777	150,544	9%	-7%
Silver	29,527	22,145	35,176	25%	-16%

- Fall in aluminium production is on account of complete ramp down of production at BALCO Plant-I due to higher cost of production.
- Copper production has gone up over corresponding quarter last year but is down sequentially due to some operational issues at its smelter.
- The refined zinc production in this quarter was lower as compared to Q4FY09 mainly on account of operational factors at Chanderiya smelter.
- The company has been selling surplus power in the commercial power markets. In the current quarter company has sold 287 million units of power as compared to 74 million units sold in the corresponding quarter last year.
- In Q1 FY10 cost of production at BALCO unit-II was at \$1290 per tonne compared with \$1385 for Q4 FY09.
- Bauxite mining at Niyamgiri mine in Orissa is expected to start from December 2010.
- Sterlite has invested around Rs. 4900 crores VAL of which Rs.565 crore is in the form of equity and rest Rs.4335 crore is in the form of loans.
- VAL profits for the quarter stood at Rs 240 crores, largely on account of forex gains.
- In Q1 FY10 alumina production from Lanjigarh stood at 1.88 lac tonnes

Projects:

- Company is considering revival of its two power plant projects of 1980 MW each at VAL and Talwandi Saboo, which it had deferred earlier. 1st unit at VAL is expected to be commissioned in next 32-34 months.

BALCO

- Construction of new Aluminium smelter with capacity of 325,000 TPA and 1200MW captive power plant is under progress; Metal from the project is expected to start from October 2010.
- Total capital expenditure for the above project is estimated at \$ 1.8 billion which will be funded through a debt and equity mix of 50-50.

Vedanta Aluminium Limited (VAL)

- The second phase of 250,000 TPA of aluminium smelter (total capacity of 500,000 TPA) is in the process of commissioning and is expected to be completed by end of FY10.
- Construction of 125,000 TPA Jharsuguda aluminium smelter is under progressing and 50% of civil works have been completed. It is expected to be commissioned in March 2010.
- Construction of 3 mn TPA alumina refinery at Lanjigarh along with the 600,000 tpa of debottlenecking project is progressing well on schedule. Refinery is expected to be commissioned by 2011 whereas debottlenecking is expected to complete by end of FY10.

Hindustan Zinc

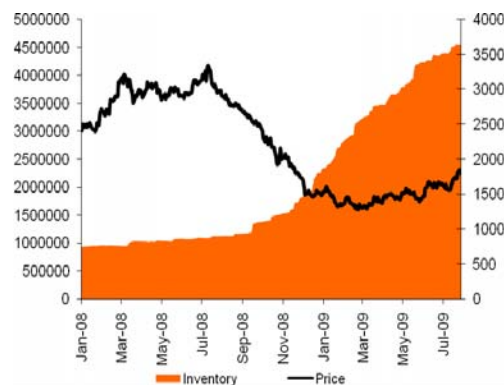
- Construction of 210,000 TPA zinc smelter and 100,000 TPA lead smelter at Rajpura Dariba are expected to be completed by mid 2010.

Sterlite Energy

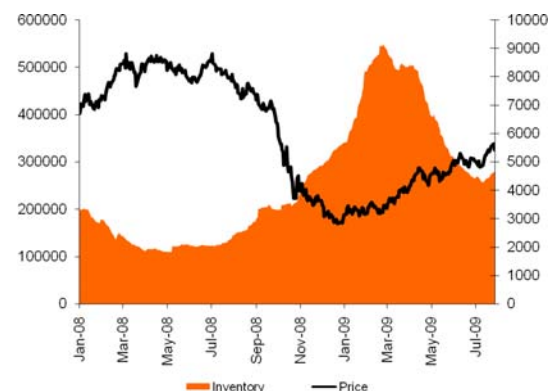
- 2400 MW (4x600MW) coal based power plant at Jharsuguda is well on schedule. First unit of 600 MW is expected to be completed by Q3 FY10 and remaining three units will be commissioned in the subsequent 3 quarters.
- \$1.3 billion non recourse debt for this project is already tied up.

LME Prices vs Inventory levels

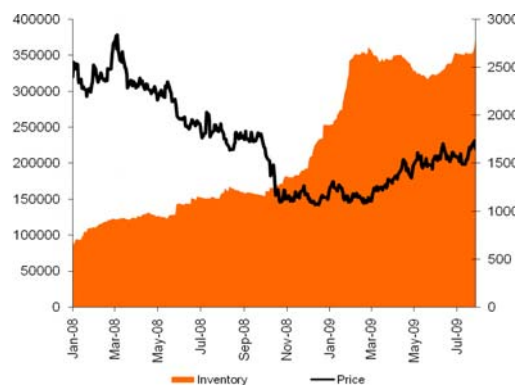
Aluminium Prices on LME



Copper Prices on LME



Zinc Prices on LME



Lead Prices on LME



Source: Bloomberg, KRC Research

Consolidated Q1FY10 Result (Rs In Crore)

Key Financials

Particulars	Q1 FY09	Q4 FY09	Q1 FY10	Q-o-Q	Y-o-Y
Net Sales	5,770	4,336	4,537	5%	-21%
Other operating Income	35	70	42	-40%	20%
Sales incl. OOI	5,805	4,406	4,579	4%	-21%
Other Income	368	394	378	-4%	3%
Total Revenues	6,173	4,800	4,957	3%	-20%
Expenditure	3,944	3,567	3,558	-0.2%	-10%
(Increase)/Decrease in stock	(115)	(51)	(335)	554%	191%
Raw materials consumed	2,601	2,223	2,407	8%	-7%
Purchases of Traded Goods	-	47	44	-8%	
Employee Cost	183	179	173	-3%	-5%
Power Fuel & Water	484	475	467	-2%	-3%
Other Expenditure	791	694	802	16%	1%
EBITDA (excl. Other Income)	1,861	839	1,021	22%	-45%
Depreciation	165	203	174	-15%	5%
EBIT	2,064	1,030	1,226	19%	-41%
Interest	87	131	71	-46%	-19%
Exceptional Items	-	80	-		
PBT	1,976	979	1,154	18%	-42%
Tax	381	66	230	247%	-39%
PAT	1,595	912	924	1%	-42%
Minority Interest	447	206	322	56%	-28%
Share of Profit of Associates	3	(108)	71	-165%	2549%
Adjusted Profit	1,151	598	673	12%	-42%
Basic EPS	16.3	8	9.5	12%	-42%
Diluted EPS	16.3	8	9.5	12%	-42%
Operating Margin	32%	19%	23%	315Bps	(976)Bps
Net Profit Margin	28%	21%	20%	(67)Bps	(729) Bps

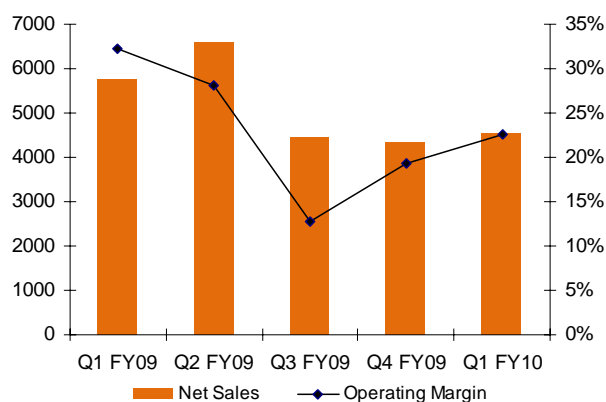
Source: Company, KRC Research

Consolidated Segmental Revenue

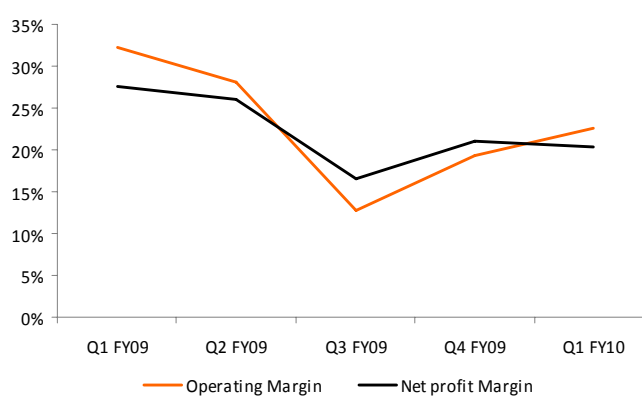
Particulars	Q1 FY09	Q4 FY09	Q1 FY10	Q-o-Q	Y-o-Y
Segmental revenue					
Copper	2,761	2,103	2,176	3.5%	-21.2%
Aluminium	1,167	813	615	-24.4%	-47.3%
Zinc & Lead	1,619	1,247	1,489	19.4%	-8.0%
Power	25	-	179		616.2%
Others	270	177	137		
Total	5,843	4,340	4,596	5.9%	-21.3%
Less:- Inter segment revenues	73	3	59	1590.0%	-18.9%
Revenues	5,770	4,336	4,537	4.6%	-21.4%
EBIT					
Copper	254	435	94	-78.4%	-63.0%
Aluminium	399	(49)	75	-251.6%	-81.2%
Zinc & Lead	931	508	701	37.9%	-24.7%
Others	9	33	91	174.0%	932.0%
Others Allocable	125	103	(9)	-108.7%	-107.2%
Total	1,718	1,030	952	-7.5%	-44.6%
EBIT Margins					
Copper	9.2%	20.7%	4.3%	-1635.8	-488.0
Aluminium	34%	-6%	12%	1828.9	-2195.7
Zinc & Lead	58%	41%	47%	631.3	-1044.2
Total	30%	24%	21%	-276.6	-878.8

Source: Company, KRC Research

Consolidated Sales v/s EBITDA



Consolidated EBITDA & PAT Margin



Source: Company, KRC Research

*Note the above graphs are on the consolidated numbers.

Standalone Q1FY10 Result (Rs In Crore)

Key Financials

Particulars	Q1 FY09	Q4 FY09	Q1 FY10	Q-o-Q	Y-o-Y
Net Sales	2,964	2,280	2,364	4%	-20%
Other operating Income	2	52	2	-96%	30%
Sales incl. OOI	2,966	2,332	2,367	2%	-20%
Other Income	176	183	184	0%	4%
Total Revenues	3,143	2,515	2,551	1%	-19%
Expenditure	2,647	2,260	2,316	2%	-12%
(Increase)/Decrease in stock	(2)	(151)	(325)	116%	15165%
Raw materials consumed	2,416	2,103	2,376	13%	-2%
Purchases of Traded Goods	-	47	44	-8%	
Employee Cost	21	18	19	5%	-12%
Other Expenditure	211	242	203	-16%	-4%
EBITDA (excl. Other Income)	320	72	51	-29%	-84%
Depreciation	35	58	37	-36%	5%
EBIT	461	198	198	0%	-57%
Interest	43	50	53	6%	24%
Exceptional Items	-	80	-	-100%	
PBT	417	227	144	-36%	-65%
Tax	59	16	31	99%	-48%
PAT	358	212	113	-46%	-68%
Basic EPS	5	3	2	-47%	-69%
Diluted EPS	5	3	2	-47%	-69%
Operating Margin	11%	3%	2%	(101)	(863)
Net Profit Margin	12%	9%	5%	(449)	(728)

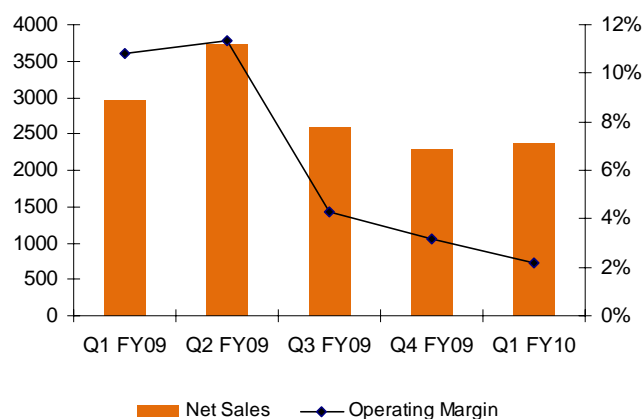
Source: Company, KRC Research

Standalone Segmental Performance

Particulars	Q1 FY09	Q4 FY09	Q1 FY10	Q-o-Q	Y-o-Y
Segmental revenue					
Copper	2,763	2,119	2,239	5.7%	-18.9%
Others	270	161	137	-15.1%	-49.4%
Total	3,033	2,280	2,376	4.2%	-21.6%
Less:- Inter segment revenues	68	-	12		-82.7%
Revenues	2,964	2,280	2,364	3.7%	-20.2%
EBIT					
Copper	172	26	45	71.2%	-73.6%
Others	122	(3)	(9)	154.0%	-107.2%
Total	294	23	36	58.7%	-87.6%
EBIT Margins					
Copper	6.2%	1.2%	2.0%	77.4	-420.0
Other	45%	-2%	-6%	-430.1	-5174.4
Total	0.1	0.0	0.0	53.4	-838.6

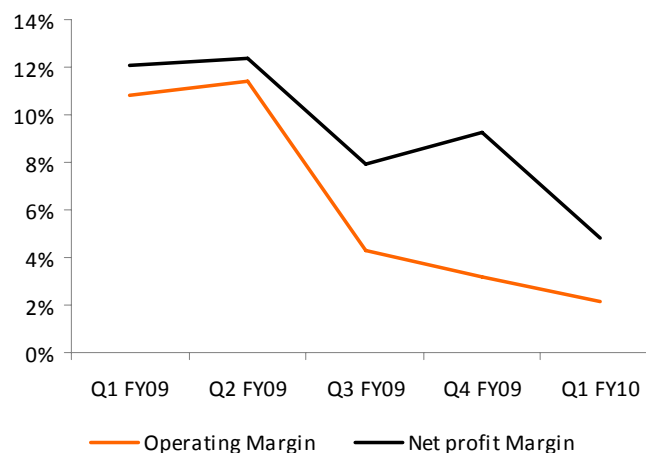
Source: Company, KRC Research

Standalone Sales v/s EBITDA

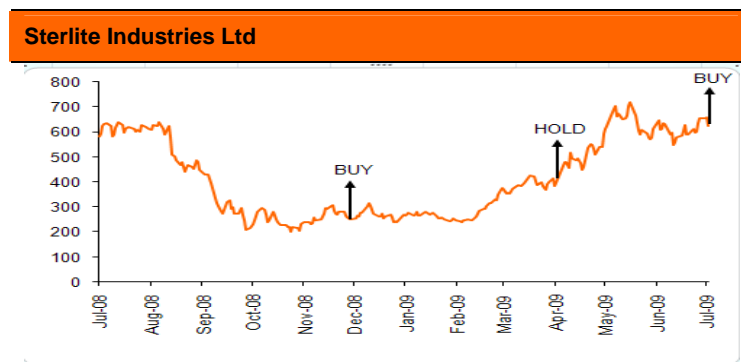


Source: Company, KRC Research

Standalone EBITDA & PAT Margin



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Rating Legend

Our Rating	Upside
Strong Buy	More than 25%
Buy	15% - 25%
Hold	10% - 15%
Reduce	Nil - 10%
Sell	Less than 0%

Other Stocks in the sector under our active coverage: Metals

Ticker	Company	Recommendation	Return	Bmk	Outper	BARR
Summary	Coverage 10	Avg Rating: 3.6	9.72%	-7.72%	17.44%	
HZ	IN Hindustan Zinc Ltd	buy	35.99%	4.76%	31.23%	
JSTL	IN JSW Steel Ltd	hold	0.00%	-32.29%	32.29%	
WGS	IN Welspun-Gujarat Stahl Ltd	buy	20.46%	-15.60%	36.06%	
HNDL	IN Hindalco Industries Ltd	sell	-12.34%	-13.74%	1.40%	
STLT	IN Sterlite Industries India Ltd	buy	2.52%	10.21%	-7.69%	
NACL	IN National Aluminium Co Ltd	reduce	16.21%	-6.20%	22.41%	
SESA	IN Sesa Goa Ltd	buy	21.26%	-3.03%	24.29%	
SAIL	IN Steel Authority Of India Ltd	buy	15.46%	-17.54%	33.00%	
JSP	IN Jindal Steel & Power Ltd	sell	-20.61%	16.29%	-36.90%	
TATA	IN Tata Steel Ltd	buy	18.26%	-20.08%	38.34%	

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