



Sterlite Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,016	STLT IN
	REUTERS CODE
S&P CNX: 5,090	STRL.BO

28 April 2008

Buy

Previous Recommendation: Buy

Rs857

Equity Shares (m)	708.7
52-Week Range	1,150/477
1,6,12 Rel. Perf. (%)	9/1/46
M.Cap. (Rs b)	608.0
M.Cap. (US\$ b)	15.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	243,868	45,005	80.6	34.1	10.7	4.9	45.8	48.7	1.9	5.0
3/08E	247,054	44,389	62.6	-22.2	13.7	2.7	20.0	23.6	1.8	5.8
3/09E	264,662	43,757	61.7	-1.4	13.9	2.3	16.8	19.9	1.5	5.0
3/10E	277,561	41,350	58.3	-5.5	14.7	2.0	13.7	16.2	1.2	4.4

Consolidated

- ✎ Sterlite's 4QFY08 PAT increased 18.3% YoY to Rs13.6b due to strong volume growth across metals and rising by product prices despite lower zinc, aluminium, copper TcRc prices. Rs2.7b on account of early adoption of AS30 and Rs949m on account of change in depreciation policy for BALCO from WDM to SLM, have propped up 4QFY08 PAT. Adjusted PAT of Rs10.8b is still higher than our estimates due to sales of lead concentrates inventories and higher realization on by products like sulphuric acid, silver, cadmium etc.
- ✎ Net sales increased 8.2% YoY to Rs67.6b due to 14% volume growth of zinc concentrate and very impressive 43% volume growth of refined zinc metal due to fast ramp up of second hydromelter of 170,000tpa at Chanderiya, while volumes of copper and aluminum remained flat.
- ✎ EBITDA declined 4.3% YoY to Rs21.7b. Strong volume growth of zinc and higher prices of lead and other by-products compensated for fall in realization on account of 29% lower zinc prices at LME and appreciation of rupee against US\$ by 10%.
- ✎ Sterlite's earnings will be driven by strong volume growth in both aluminium and zinc metal for the next two to three years. Earnings of copper too have bottomed out. Sterlite has surplus cash of Rs155b (unutilized proceeds of ADR), which includes Rs75b surplus cash on the books of Hindustan Zinc. The stock trades at PE of 13.9x FY09, which doesn't capture strong volume growth and pipeline of projects. Current strong pricing scenario of aluminium and by products provide upside risks to our estimates. Valuations are attractive. We reiterate **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	46,030	67,180	68,143	62,516	61,391	65,671	52,332	67,659	243,868	247,054
Change (YoY %)	146.3	153.8	94.1	22.6	33.4	-2.2	-23.2	8.2	86.1	1.3
Total Expenditure	27,531	41,434	40,515	39,799	39,830	46,013	36,616	45,913	149,280	168,372
EBITDA	18,499	25,746	27,628	22,716	21,561	19,658	15,717	21,746	94,589	78,682
Change (YoY %)	379.1	392.4	215.7	19.3	16.6	-23.6	-43.1	-4.3	156.5	-16.8
As % of Net Sales	40.2	38.3	40.5	36.3	35.1	29.9	30.0	32.1	38.8	31.8
Interest	898	1,163	856	874	955	643	681	908	3,791	3,186
Depreciation	1,834	1,871	1,888	2,446	2,031	2,046	2,142	(269)	8,039	5,950
Other Income	1,355	1,112	1,864	2,485	3,501	3,233	3,009	5,918	6,817	15,661
PBT (before XO item)	17,122	23,825	26,749	21,881	22,076	20,202	15,904	27,025	89,576	85,207
Extra-ordinary Exp.	(122)	(1,362)	(25)	(63)	-	-	-	(528)	(1,572)	(528)
PBT (after XO item)	17,000	22,463	26,724	21,818	22,076	20,202	15,904	26,497	88,004	84,679
Total Tax	4,790	6,862	7,763	4,702	5,247	4,465	4,138	7,177	24,118	21,027
% Tax	28.2	30.6	29.0	21.5	23.8	22.1	26.0	27.1	27.4	24.8
Reported PAT	12,209	15,600	18,960	17,117	16,829	15,737	11,766	19,320	63,887	63,652
Minority interest	3,419	4,890	6,030	5,683	5,400	4,911	3,213	6,135	20,023	19,659
Adjusted PAT	8,878	11,656	12,948	11,483	11,429	10,826	8,553	13,569	45,005	44,389
Change (YoY %)	435.7	348.2	226.3	41.0	28.7	-7.1	-33.9	18.2	168.5	-1.4

E: MOSSt Estimate

PRODUCTION (TONS)

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QF08
Copper								
Mined Metal Content	8,000	7,000	7,000	6,000	6,000	8,000	7,000	6,000
Cathode	57,000	80,000	86,000	89,000	81,000	91,000	77,000	90,000
Aluminium	67,000	69,000	89,000	89,000	88,000	90,000	89,000	90,000
Change (YoY %)	148.1	91.7	74.5	48.3	31.3	30.4	-	1.1
Zinc								
MIC	131,526	124,474	127,699	121,301	134,000	143,219	135,891	137,846
Change (YoY %)	16.4	17.4	0.6	44.6	1.9	15.1	6.4	13.6
Refined Zinc	83,000	78,000	93,000	95,000	93,000	94,000	104,000	135,491

Source: Company/Motilal Oswal Securities

Strong volume growth of zinc and copper prices drove the top line

Net sales increased 8.2% YoY to Rs67.7b due to increase in revenue from the copper business by 28% to Rs37.8b, zinc and lead business by 12% to Rs22.7b despite a steep decline in revenues of aluminium business to Rs7.2b. Copper cathode production increased marginally by ~1% to 90,000 tons while the production of Cu-MIC remained flat at 6,000 tonnes. Aluminium production too increased marginally to 90,000 tonnes.

Production of zinc-MIC increased 13.6% YoY to 1,37,846 tonnes while refined zinc production increased 43% YoY to 1,35,491 tonnes. Decline in aluminium revenues is due to lower prices on the LME and rupee appreciation. Copper LME average prices increased 30% to US\$7,741/tonne, aluminium LME average prices remained flat at US\$2,779/tonne while zinc LME average prices declined 29% to US\$2,460/tonne.

SEGMENT RESULTS (RS M)

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QF08
a) Copper	3,714	4,456	3,750	2,867	2,613	2,076	1,858	3,670
b) Aluminium	1,604	1,503	4,324	4,552	2,930	1,939	1,452	5,473
c) Zinc & Lead	12,043	18,477	18,764	13,795	15,411	14,399	10,320	13,777
d) Others	(17)	107	25	(42)	365	550	638	(901)
Other unallocable inc./exp.	676	445	742	1,583	1,712	1,882	2,316	5,914
Total	18,020	24,988	27,605	22,755	23,031	20,845	16,584	27,933
Less : Interest paid	898	1,163	856	874	955	643	681	908
Profit before tax &EO	17,122	23,825	26,749	21,881	22,076	20,202	15,904	27,025
Less: Extra ordinary items	122	1,362	25	63	-	-	-	528
Profit before Tax	17,000	22,463	26,724	21,818	22,076	20,202	15,904	26,497

Source: Company/Motilal Oswal Securities

EBITDA decline cushioned by higher sales of lead concentrate and by products

EBITDA declined 4.3% YoY to Rs21.7b. Strong volume growth of zinc refined metal and higher prices of lead and other by products compensated for fall in realization on account of 29% lower zinc prices on LME and appreciation of rupee against the Us dollar by 10%.

Hindustan Zinc to become world's largest smelter by 2010

- ✎ Reserves and resources of zinc and lead metal have increased by 17% to 27.5m tonnes, which enabled Hindustan Zinc to announce capacity expansion to 1mtpa by 2010.
- ✎ Wind power capacity of 107MW has already been commissioned, which will expand to 124MW by June 2008.

Vedanta Aluminium (VAL) projects ahead of schedule

- VAL (Sterlite has 29.5% holding) produced 124,000 tonnes of alumina for which bauxite has been largely sourced from Balco's mines and other miners. The cost of alumina so far is US\$140/ton.
- 500,000tpa smelter is one year ahead of schedule and is expected to start first metal production shortly.

Sterlite Energy to start commercial power generation by September 2009

- First phase of 2,400MW power plant in Jharsuguda is expected to start with a 600MW capacity by September 2009, which is six months ahead of schedule. The company has secured 320m tonnes of coal block between Balco and Sterlite Energy.

Strong growth ahead, valuations attractive

- Sterlite's earnings will be driven by strong volume growth in both aluminium and zinc metal for the next 2-3 years. Earnings of copper too have bottomed out.
- Sterlite has surplus cash of Rs155b (unutilized proceeds of ADR), which includes Rs75b surplus cash on the books of Hindustan Zinc. The stock trades at P/E of 13.9x FY09E which doesn't capture strong volume growth and pipeline of projects. Current strong pricing scenario of aluminium and by products provide upside risks to our estimates. Valuations are attractive. We reiterate **Buy**.

SOTP VALUATIONS AND TARGET PRICE

	YEAR	REVENUE	EBIT (RS M)	PAT (RS M)	SHARE (%)	PAT ATTRIB.	EPS (RS)	BV	TARGET			
									CRITERIA	MULTIPLE	RS/SH.	MKT CAP
Operations												
Operations												
Balco	FY09	56,392	16,366	10,831	51.0	5,524	7.8		PER	15.0	117	82,858
Zinc & Lead	FY09	89,823	58,428	33,804	64.9	21,939	31.0		PER	10.0	310	219,390
Cash of HZL				5,175	64.9	3,359	4.7	44,033	P/BV	1.0	40	28,577
Sterlite Industries	FY09	138,187	13,982	3,105	100.0	3,105	4.4	30,231	P/BV	2.0	85	60,463
Cash of sterlite	FY09			5,234	100.0	5,234	7.4	90,305	P/BV	1.0	127	90,305
Copper mines									DCF		24	16,947
Projects												
VAL-Alumina									DCF		47	33,260
Sterlite Energy									DCF		238	168,974
SOTP											989	700,775

Source: Motilal Oswal Securities

Sterlite Industries: an investment profile

Company description

Sterlite is a diversified play on three base metals. It is ramping up capacities to 400,000 tonnes of aluminum, 400,000 tonnes of copper and 660,000 tonnes of refined zinc, which would fuel significant volume growth. The company is setting up a 2,400MW power project in Orissa. The first phase of 600MW capacity is likely to be operational in September 2008. The project is in close proximity to coal mines and Sterlite would soon replace coal linkages with coal from its captive mines. Given its low cost production and strong demand, the project would drive earnings up. Sterlite has raised US\$2b mainly to fund the exercise of call options in Hindustan Zinc, enabling it to acquire the remaining 29.5% government stake in the company. We believe this will be substantially value accretive for shareholders of Sterlite.

Key investment arguments

- ✎ Strong volume growth in both zinc and aluminium due to capacity expansions. Successful exercise of call options on Hindustan Zinc and BALCO will be value accretive to the shareholders.
- ✎ Outlook on metal remains positive.

Key investment risks

- ✎ Unexpected fall in zinc, aluminum or copper prices may adversely impact profitability.

Recent developments

- ✎ Reserves of zinc and lead metal increased by 17% to 27.5m tons due to ongoing exploration activities in its mines.
- ✎ Zinc smelting capacity to increase from 570ktpa to 660ktpa by June 2008.

Valuation and view

- ✎ The stock trades at 5x FY09E EV/EBITDA. Maintain **Buy**.

Sector view

- ✎ Zinc prices have trended lower due to easing of global supply, while production costs have increased worldwide on account of depreciation of dollar and rising energy costs. We believe the downside risks to zinc prices are limited.

COMPARATIVE VALUATIONS

		STERLITE	NALCO	HINDALCO
P/E (x)	FY08E	13.9	16.4	13.3
	FY09E	13.9	12.6	9.6
P/BV (x)	FY08E	2.7	3.2	1.6
	FY09E	2.3	2.7	1.3
EV/Sales (x)	FY08E	1.8	5.2	0.8
	FY09E	1.5	4.6	0.7
EV/EBITDA (x)	FY08E	5.8	11.1	8.0
	FY09E	5.0	7.9	6.2

SHAREHOLDING PATTERN (%)

	MAR-08	DEC-07	MAR-07
Promoter	62.5	62.5	79.3
Domestic Inst	6.4	6.0	4.4
Foreign	23.5	24.2	7.9
Others	7.6	7.4	8.5

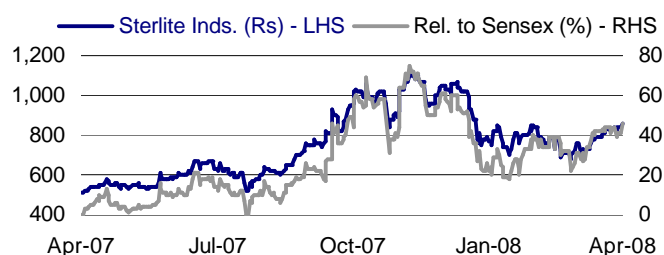
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	61.7	67.3	-8.3
FY10	58.3	73.2	-20.3

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
857	989	15.4	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT						(Rs MILLION)					
Y/E MARCH	2006	2007	2008E	2009E	2010E						
Net Sales	131,026	243,868	247,054	264,662	277,561						
Change (%)	80.7	86.1	1.3	7.1	4.9						
Total Expenses	94,148	149,280	168,372	184,222	200,830						
EBITDA	36,878	94,589	78,682	80,440	76,731						
% of Net Sales	28.1	38.8	31.8	30.4	27.6						
Depn. & Amortization	5,269	8,039	5,950	8,705	8,534						
EBIT	31,609	86,550	72,732	71,735	68,197						
Net Interest	2,353	3,791	3,186	1,453	1,103						
Other income	3,363	6,817	15,661	17,042	23,900						
PBT before EO	32,619	89,576	85,207	87,323	90,994						
EO income	-101	-1,572	-528								
PBT after EO	32,518	88,004	84,679	87,323	90,994						
Tax	10,236	24,118	21,027	25,800	29,751						
Rate (%)	31.5	27.4	24.8	29.5	32.7						
Reported PAT	22,282	63,887	63,652	61,524	61,243						
Minority interests	5568	20023	19659	17767	19893						
Adjusted PAT	16,783	45,005	44,389	43,757	41,350						
Change (%)	114.9	168.2	-1.4	-1.4	-5.5						

BALANCE SHEET						(Rs MILLION)					
Y/E MARCH	2006	2007	2008E	2009E	2010E						
Share Capital	559	1,117	1,417	1,417	1,417						
Reserves	59,974	98,236	222,171	260,387	302,318						
Share holders funds	60,532	99,353	223,589	261,804	303,735						
Minority Interest	16,948	33,431	53,024	70,798	90,700						
Loans	51,872	35,729	22,729	18,729	18,729						
Deferred tax liability (net)	7,511	9,097	9,097	9,097	9,097						
Capital Employed	136,862	177,610	308,438	360,428	422,261						
Gross Block	114,400	127,152	145,022	157,422	160,322						
Less: Accum. Deprn.	36,513	44,297	52,747	61,452	69,986						
Net Fixed Assets	77,887	82,855	92,275	95,970	90,336						
Capital WIP	7,611	8,390	2,793	2,793	2,793						
Investments	24,952	51,072	178,347	221,408	284,094						
Curr. Assets	60,422	80,097	88,538	96,336	102,278						
Inventories	19,507	26,261	29,017	31,217	32,297						
Sundry Debtors	13,475	16,730	17,141	18,454	19,349						
Cash and Bank	11,153	17,711	22,986	27,271	31,238						
Loans and Advances	16,287	19,394	19,394	19,394	19,394						
Curr. Liability & Prov	34,113	44,808	53,519	56,083	57,242						
Sundry Creditors	13,917	16,976	24,570	26,639	27,305						
Other Liabilities & prov	20,196	27,832	28,949	29,443	29,938						
Net Current Assets	26,309	35,288	35,019	40,253	45,035						
Misc. Exp. (not w/off)	105	4	4	4	4						
Application of Funds	136,863	177,610	308,438	360,428	422,261						

E: MOST estimates

RATIOS					
Y/E MARCH	2006	2007	2008E	2009E	2010E
Basic (Rs)					
EPS	60.1	80.6	62.6	61.7	58.3
Cash EPS	78.9	94.9	71.0	74.0	70.4
BV/Share	214.3	175.8	313.5	367.4	426.6
DPS	2.5	2.5	2.5	2.5	2.5
Payout (%)	4.2	3.1	4.0	4.0	4.3
Valuation (x)					
P/E	14.3	10.7	13.7	13.9	14.7
Cash P/E	10.9	9.0	12.1	11.6	12.2
P/BV	4.0	4.9	2.7	2.3	2.0
EV/Sales	2.1	1.9	1.8	1.5	1.2
EV/EBITDA	7.6	5.0	5.8	5.0	4.4
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3
Return Ratios (%)					
RoE	28.0	45.8	20.0	16.8	13.7
RoCE	23.1	48.7	23.6	19.9	16.2
RoIC	34.0	86.2	69.7	65.8	65.5
Working Capital Ratios					
Fixed Asset Turnover (x)	1.1	1.9	1.7	1.7	1.7
Asset Turnover (x)	1.0	1.4	0.8	0.7	0.7
Debtor (Days)	38	25	25	25	25
Inventory (Days)	54	39	43	43	42
Creditors (Days)	39	25	36	37	36
Leverage Ratio (x)					
Debt/Equity	0.7	0.2	0.0	0.0	0.0

CASHFLOW STATEMENT						(Rs MILLION)					
Y/E MARCH	2006	2007	2008E	2009E	2010E						
Pre-tax profit	32,518	88,004	84,679	87,323	90,994						
Depreciation	4,737	7,784	8,450	8,705	8,534						
(Inc)/Dec in Wkg. Cap.	-7,069	-2,422	5,545	-949	-815						
Tax paid	-8,251	-23,275	-19,226	-25,800	-29,751						
Other operating activities		-2,728	2,208	-592	5,530						
CF from Op. Activity	21,934	67,364	81,655	68,687	74,493						
(Inc)/Dec in FA +CWIP	-12,116	-13,532	-12,273	-12,400	-2,900						
(Pur)/Sale of Investments	-6,461	-26,121	-127,274	-43,061	-62,686						
Others											
CF from Inv. Activity	-18,577	-39,652	-139,548	-55,461	-65,586						
Equity raised/(repaid)	10	559	300								
Debt raised/(repaid)	-1,657	-16,142	-13,000	-4,000							
Dividend (incl. tax)	-445	-797	-1,597	-2,073	-2,073						
Other financing activities	1545	-4,773	78,909	-2,869	-2,868						
CF from Fin. Activity	-547	-21,154	64,612	-8,942	-4,941						
(Inc)/Dec in Cash	2,811	6,558	6,720	4,284	3,967						
Add: opening Balance	8,342	11,153	17,711	22,986	27,271						
Closing Balance	11,153	17,711	22,986	27,271	31,238						



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilalosal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement	Sterlite Industries
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.