

Sterlite Industries

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The sterling Sterlite

- India's largest diversified non-ferrous metal player
- Among the lowest quartile of the cost curve for all metals
- Strong volume growth across all business segments
- Stable commodity prices outlook, reduction of minority interests to benefit.
- Strong future free cash flows, compelling valuations

Investment rationale

- India's largest diversified non-ferrous metal player with exposure to aluminium (100% backward integration (BI) by March 2007), copper (10% BI), and zinc (100% BI). Expanding capacity at the right time when commodity prices are favourable
- With 1200MW of captive power, its in-house power capacity is close to that of Tata power and higher than that of Reliance Energy. Among the lowest quartile of the cost curve for all metals due to full integration
- Strong volume growth across copper (33%), aluminium (191%), and zinc (40%) over the next 1-2 years; driven by buoyant local demand
- Earnings to grow at 81% in FY07E and 11% in FY08E

Risks

- Stock performance is directly linked to metal price movements. However, recent price rises are a result of long-term cyclical shifts. The core issue of mining capacity additions, which takes 7-10 years to get fully operational, is exemplified by the great consolidation wave sweeping across the North American and European mining industry.

Valuation

- Sterlite trades at a PE and EV/EBITDA of 7.1x and 3.4x FY07 estimates. Our average price assumptions are lower by 10% for aluminium, 26% for zinc, and 33% for copper compared with their respective current prices
- We rate the stock a BUY with a price target of Rs549 (~40% upside)
- At our target price, the stock would trade at PE and EV/EBITDA of 9.9x and 4.1x its FY07E earnings

Valuation summary (consolidated)

Y/E Mar, Rs mn	FY04	FY05	FY06E	FY07E	FY08E
Net Sales	57.4	75.4	134.3	214.1	244.9
Core EBIDTA	5.8	14.3	34.5	60.4	64.0
EBIDTA margins, %	10.1	18.9	25.7	28.2	26.1
Net profit	7.2	8.8	17.1	31.1	34.4
EPS, Rs	12.9	15.7	30.6	55.6	61.6
EPS Growth, %	67	21	96	81	11
PER, x	30.6	25.2	12.9	7.1	6.4
EV/EBIDTA, x	42.6	17.3	6.6	3.4	2.8
EV/Net Sales, x	4.3	3.3	1.7	1.0	0.7
Price/Book Value, x	12.9	5.1	3.8	2.6	2.0
ROIC, %	4.0	9.8	21.5	31.8	29.6
ROE, %	42.3	20.2	29.8	37.0	30.5
Dividend Yield, %	0.3	0.4	0.7	0.8	0.9

Source: Company, Man Financial Research Estimates

BUY / Rs 395
Target Rs 549 (+39%)

Sector (Relative to market)

OW	N	UW

Stock (Relative to market)

B	OP	N	UP	S
> 10%	5% to 10%	5% to -5%	-5% to -10%	< -10%

Bloomberg code : STLT IN
Reuters code : STRL.BO
www.sterlite-industries.com

BSE Sensex : 11313
NSE Nifty : 3313

Company data

O/S shares : 558mn
Market cap (Rs) : 220bn
Market cap (USD) : 4,721mn
52 - wk Hi/Lo (Rs) : 614 / 138
Avg. daily vol. (3mth) : 5.1mn
Face Value (Rs) : 5

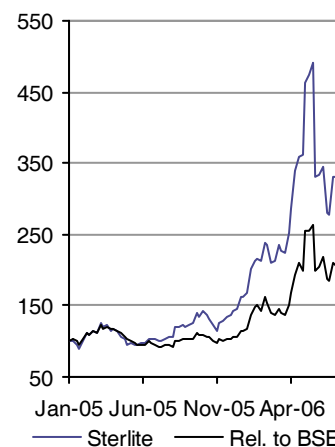
Share holding pattern, %

Promoters : 78.4
FII / NRI : 7.5
FI / MF : 4.5
Non Promoter Corp. Holdings : 5.4
Public & Others : 4.2

Price performance, %

	1mth	3mth	1yr
Abs	(6.1)	(33.7)	172.6
Rel to BSE	(12.0)	(39.6)	126.9

Sterlite relative to the Sensex



Source: Bloomberg, Man Financial Research

INVESTMENT OVERVIEW

Sustainable competitive advantage	Captive sources of bauxite, copper concentrate (up to 10-20%), and zinc ore will provide long-term competitive advantage
Financial structure	Strong free cash flow generation with very low gearing
Shareholder value creation	Expected to maintain positive economic value creation over the next three years
Earnings visibility	Volume expansion across all business segments and strong product prices provide strong earnings visibility over the next few years
Valuation	Quoting at attractive valuations considering the strong volume growth pipeline, low cost integrated operations, and steady base metal prices.
Man vs. consensus	We are marginally lower than the street in terms of FY07 EPS estimates. However, we feel that there is a scope for re-rating.
Future event triggers	Lowering of minority interests in BALCO from 49% to nil by the end of the year and in Hindustan Zinc from 35% to 5.5% by the end of FY08 are strong near-term triggers.
Expected price momentum	Stock price has a high co-relation with underlying metal price movements, which lead to PE expansion in times of depressed prices and contraction when underlying metal prices are high.

Source: Man Financial Research

Rating and price target

We are initiating coverage on Sterlite Industries with a price target of Rs549 based on Sterlite's sum-of-the-parts (SOP) value — where the core business is valued at Rs162 and subsidiaries are valued at Rs 387.

Core business is valued at Rs162 and subsidiaries are valued at Rs 387

At our target price, the stock trades at 9.9x FY07E and 8.9x FY08E consolidated EPS, which is inline with its peers.

At its CMP of Rs 395, the stock quotes at 7.1x FY07E and 6.4x FY08E earnings, which is inline with its peers Hindalco (7.0x and 6.5x) and National Aluminium (6.5x FY07E).

Sum-of-parts valuation

	Sterlite stake	Value of Sterlite stake - Rs per share		Based on FY07E
		FY07 (Rs mn)		
Copper mining business	100.00%	1,878	3.4	1.5x PB
Bharat Aluminium Company	100.00%	53,156	95.1	8x
Hindustan Zinc	65.50%	249,083	445.6	Target market cap
Vedanta Alumina	30.00%	4,968	8.9	3x P/B
		309,086	552.9	
(A) Total subsidiary value		309,086		
Total subsidiary value after 30% discount		216,360	387.0	
Value per Sterlite share		389		
(B) Sterlite's core business value		90,528	161.9	2x P/B
Total value (A)+(B)		399,615	549.0	

Source: Man Financial Research Estimates

Note – Sterlite's current stake in BALCO is 51%. However, we have considered a 100% stake considering that Sterlite has exercised its call option for the remaining 49%, which will be transferred to Sterlite in due course. For HZL we have currently assumed 65.5% stake, whereas Sterlite has a call option to acquire the remaining 30% GOI stake in March 2007.

Price performance

%	Curr Close	1M	3M	6M	1Year	YTD
BSE Sensex	11,313	5.9	-7.9	12.2	45.6	20.4
Nifty	3,313	6.1	-9.2	9.8	40.3	16.8
Hindalco	167	-4.8	-31.3	5.0	26.2	16.1
Hindustan Zinc	573	-6.1	-44.4	75.0	201.3	133.6
Nalco	200	-9.3	-38.6	-27.6	19.0	-9.2
Sterlite Industries	395	-6.1	-33.7	47.9	172.6	93.6

Source: Bloomberg

Business snapshot

Revenue mix, %	FY2003	FY2004	FY2005	FY2006E	FY2007E	FY2008E
Copper	47	50	53	56	52	56
Aluminium	18	15	14	13	19	18
Zinc	31	32	29	29	26	24
Others	3	3	4	2	3	2

EBITDA Mix

Copper	59	-5	23	24	17	16
Aluminium	13	13	16	10	20	21
Zinc	30	97	60	66	63	63
Others	-1	-4	1	0	0	0

Its revenue mix will not change significantly over the next two years with copper contributing a major chunk, followed by zinc, and aluminium

Most of its EBITDA, however, comes from zinc, followed by aluminium and copper

Revenue drivers	FY2003	FY2004	FY2005	FY2006E	FY2007E	FY2008E
Copper						
Volumes (tons)	184,559	174,119	273,000	280,000	375,000	400,000
YoY, %		-6	57	3	34	7
Aluminium						
Volumes (tons)	95,490	97,088	100,272	211,000	355,000	370,000
YoY, %		2	3	110	68	4
Zinc						
Volumes (tons)	207,066	261,226	265,924	312,000	360,000	390,000
YoY, %		26	2	17	15	8

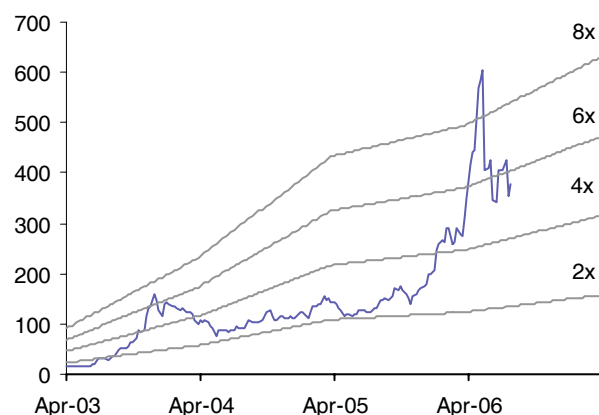
Source: Company, Man Financial Research Estimates

RELATIVE AND ROLLING ABSOLUTE VALUATION

FY07E	Sterlite	Hindalco	Nalco	Hindustan Zinc
PER	6.4	7.0	6.5	9.7
PBR	4.6	1.5	1.8	4.4
PSR	1.0	1.1	2.0	4.4
PEG (2-yr growth)	0.4	(0.8)	0.4	1.96
EV/EBITDA	3.4	5.5	3.9	5.7
EV/Sales	1.0	1.1	2.1	3.9
EV/IC	1.9	1.4	1.6	3.7

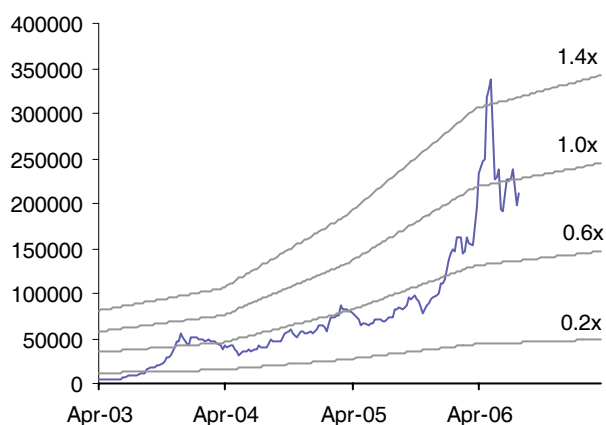
Sterlite trades reasonably in line with its peers. Hindustan Zinc trades at higher multiples on almost all parameters.

PE band



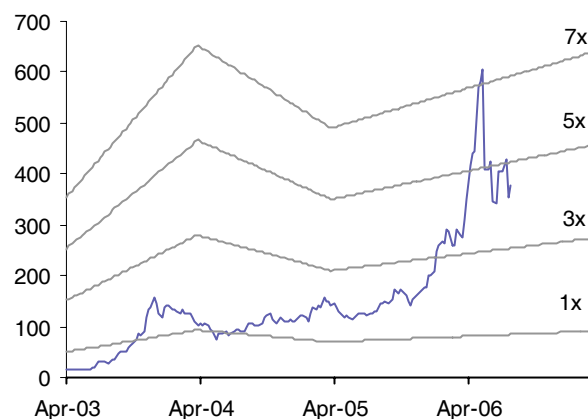
The recent PE contraction can be attributed to a recent correction in metal prices — reflected in Sterlite's multiples.

Market cap to sales band



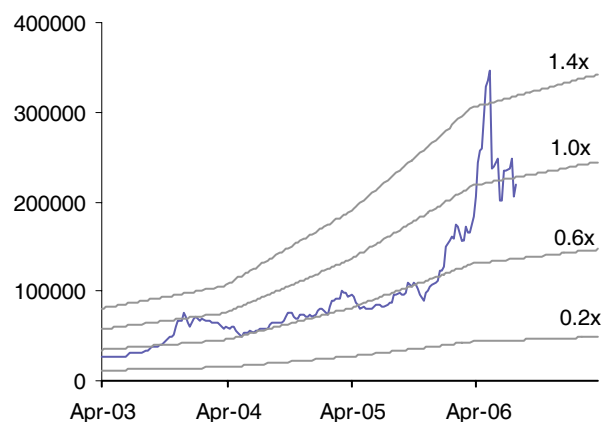
Sterlite's market capitalization has risen significantly over the last one year — reflected in higher multiples.

PBV band



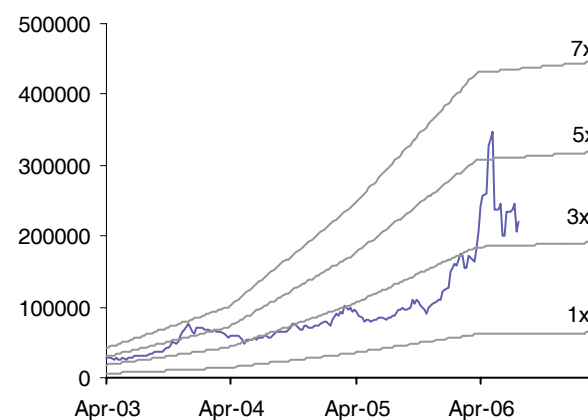
In terms of PBV, Sterlite trades at premium due to strong re-rating.

EV/Sales band



Sterlite's valuation on EV/sales is the lowest due to the high share of the lower-margin copper business. Hindustan Zinc has the highest EV/sales due to its high-margin zinc business.

EV/EBITDA band



Sterlite trades at a discount on EV/EBITDA multiple compared with domestic and international peers

Historic and prospective peer valuation comparison

Year	Equity multiples				Enterprise multiples					
	PER	PEG	PBR	PSR	EV/EBITDA	EV/EBIT	EV/Noplat	EV/Sales	EV/IC	
Hindalco	FY04	18.4	0.51	2.3	2.6	13.4	15.9	246.5	2.4	2.1
	FY05	14.6	0.53	2.0	1.7	8.6	9.4	33.2	1.6	1.9
	FY06E	11.7	0.9	1.7	1.4	7.1	8.8	33.9	1.4	1.5
	FY07E	7.0	-0.8	1.5	1.1	5.5	5.6	11.5	1.1	1.4
	FY08E	6.5	-0.8	1.3	1.1	4.9	5.6	11.8	1.1	1.3
Nalco	FY04	17.5	0.38	3.4	3.9	9.5	13.8	63.5	3.9	2.7
	FY05	10.4	0.39	2.7	2.9	5.6	7.1	17.8	2.7	2.4
	FY06E	8.2	0.30	2.2	2.4	4.9	5.7	11.8	2.4	2.1
	FY07E	6.5	0.40	1.8	2.0	3.9	4.9	10.9	2.1	1.6
	FY08E	5.9	0.21	1.6	1.9	3.5	4.3	9.7	1.9	1.3
Hindustan Zinc	FY04	60.0	0.7	16.1	13.1	41.9	48.1	234.8	12.8	11.2
	FY05	37.2	0.29	11.7	11.1	27.5	30.6	108.5	10.8	8.3
	FY06E	16.4	0.24	7.2	6.3	10.1	10.7	65.7	6.0	5.9
	FY07E	9.7	1.96	4.4	4.4	5.7	6.0	18.4	3.9	3.7
	FY08E	9.3	1.0	3.1	4.1	4.9	5.2	9.8	3.4	2.5

Source: Company, Man Financial Research Estimates

Global valuation comparisons

	2000	2001	2002	2003	2004	2005E	2006E	2007E	Average over cycle
Sales multiple (x)									
Antofagasta	3.19	3.55	3.68	4.15	3.02	2.92	4	3.62	3.9
Anglo American	1.63	1.6	1.64	1.53	1.74	1.6	2.1	1.94	1.6
BHP Billiton	1.87	1.75	2.51	2.4	2.44	2.68	2.99	2.88	2.3
Rio Tinto	3.02	3.15	2.83	2.99	2.61	2.3	2.73	2.44	2.4
Xstrata	-	-	1.75	1.77	1.8	2.12	3.11	3.07	1.9
Weighted Average	3.02	3.16	2.85	3.02	2.62	2.32	2.76	2.47	2.43
EBITDA margin %									
Antofagasta	45.8%	36.6%	39.6%	48.7%	69.9%	68.5%	67.9%	65.6%	34%
Anglo American	22.8%	24.1%	23.4%	19.2%	24.7%	28.2%	32.4%	31.3%	22%
BHP Billiton	24.3%	27.9%	30.9%	28.9%	28.5%	36.0%	38.1%	38.4%	29%
Rio Tinto	40.4%	41.3%	36.6%	30.9%	34.0%	45.0%	44.9%	44.0%	33%
Xstrata	0.0%	0.0%	22.9%	20.1%	32.0%	38.4%	43.1%	43.4%	28%
Weighted Average	40.5%	41.2%	36.6%	31.4%	34.8%	45.5%	45.4%	44.5%	29.4%
EBITA margin %									
Antofagasta	32.5%	21.8%	25.1%	36.3%	62.9%	63.2%	62.2%	59.6%	25%
Anglo American	15.5%	15.3%	16.8%	11.3%	14.0%	16.5%	20.7%	19.6%	14%
BHP Billiton	14.3%	18.5%	19.6%	19.5%	21.5%	29.8%	32.8%	32.4%	21%
Rio Tinto	30.7%	31.3%	26.4%	20.7%	24.8%	37.2%	37.1%	36.2%	24%
Xstrata	0.0%	0.0%	12.1%	8.7%	23.2%	30.9%	36.9%	36.9%	19%
Weighted Average	30.7%	31.1%	26.4%	21.0%	25.7%	37.8%	37.7%	36.7%	20.5%
EBITDA multiple (x)									
Antofagasta	6.97	9.69	9.29	8.53	4.33	4.27	5.89	5.52	14.6
Anglo American	7.16	6.66	7.02	7.99	7.05	5.67	6.49	6.19	7.9
BHP Billiton	7.7	6.28	8.1	8.3	8.57	7.45	7.85	7.5	7.7
Rio Tinto	7.48	7.63	7.74	9.66	7.67	5.12	6.08	5.55	7.3
Xstrata	0	0	7.66	8.81	5.64	5.51	7.23	7.06	6.9
Weighted Average	7.43	6.92	7.69	8.62	7.57	6.21	7.02	6.66	8.9
EBITA multiple (x)									
Antofagasta	9.95	16.55	14.86	11.55	4.8	4.71	6.42	6.07	29.4
Anglo American	11.02	11.11	10.35	14.66	12.47	9.7	10.17	9.9	12.6
BHP Billiton	13.11	9.47	12.79	12.31	11.38	9.01	9.1	8.89	11.3
Rio Tinto	10.34	10.59	11.37	15.51	10.69	6.19	7.36	6.74	10.8
Xstrata	-	-	14.98	21.17	7.79	6.85	8.44	8.31	12.7
Weighted Average	11.48	10.52	11.76	14.32	11.03	8.17	8.78	8.47	15.38
NOPAT Multiple									
Antofagasta	10	19.9	17.6	13.9	6	5.8	8.3	7.9	7.2
Anglo American	14.7	14.3	14.3	18.3	15.4	12.8	13.4	13	11.6
BHP Billiton	15.3	15.6	20.1	18.6	14.8	12.2	12.4	12.1	16.1
Rio Tinto	14.2	15.1	20.6	19.3	13.5	8.7	10.1	9.2	7.1
Xstrata	-	-	17.2	23.1	9.2	8.8	11.5	11.4	14.6
Weighted Average	14.6	15.1	18.3	18.7	13.9	11	11.9	11.4	11.3
Basic P/E multiple									
Antofagasta	8.6	21.2	16.7	13.1	6.5	6.7	9	9	14.2
Anglo American	10.7	7	13.7	15.1	9.2	10.7	12.6	12.8	12.1
BHP Billiton	15.6	18	18	19.9	17.3	11	11.6	11.6	16.6
Rio Tinto	15	22.7	39.6	19.3	10.5	9.4	10.4	10.1	19.7
Xstrata	0	-	17.6	11.8	8.3	7.5	11.1	11.5	11.3
Weighted Average	13.6	16.1	22.7	17.6	12.4	10.1	11.4	11.4	14.7

Source Man Financial Research Estimates

Sterlite's multiples are at a significant discount compared with its international peers.

Its consolidated EBITDA margins at 26% are inline with global mining majors

At an EBITDA multiple of 3.4x Sterlite is trading at a discount

KEY RISKS

- **Sterlite's earnings have a high sensitivity to commodity prices:** Sterlite sells most of its copper, aluminium, and zinc in spot markets, which are vulnerable to fluctuations on a day-to-day basis. The domestic prices are based on the international prices, which are usually settled on the London Metal Exchange adjusting for local premiums, freight, and domestic tariffs. Metal prices have been volatile recently, because of the entry of investment funds. Therefore, prices may not reflect the true demand supply for these commodities.
Metal prices have been volatile recently, because of the entry of investment funds. Therefore, prices may not reflect the true demand supply situation
- **Currency price movements:** For the Indian markets, base metal prices are taken from the London Metal Exchange and converted to rupees per tonne. Adverse currency movements could affect local product pricing and hence profitability. The Indian rupee has been fairly volatile in the last few months and has weakened, benefiting some of Sterlite's business. Going forward we expect the volatility in local currency vis-à-vis the US to continue.
- **Reserve additions, especially for zinc:** The total reserves of zinc are close to 6mtpa of metal content, which represent a mining life of around 12 years. Although HZL has several additional mining and prospecting licenses for zinc mining at locations near its existing mines, reserve additions will remain crucial for the long-term sustainability of its business.
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- **Delays in capacity expansion:** Sterlite and its subsidiaries are on an expansion mode for all the metals and future earnings growth would in a large part depend on the successful capacity ramp up.
- **Import tariffs reductions have a negative impact on domestic pricing:** Import tariffs on aluminium, copper and zinc have been brought down steadily over the last few years to 7.5% (near ASEAN levels). Import tariffs reductions have a negative impact on domestic pricing because local prices are linked to landed prices. Going forward, we expect import tariffs to remain stable at current levels.
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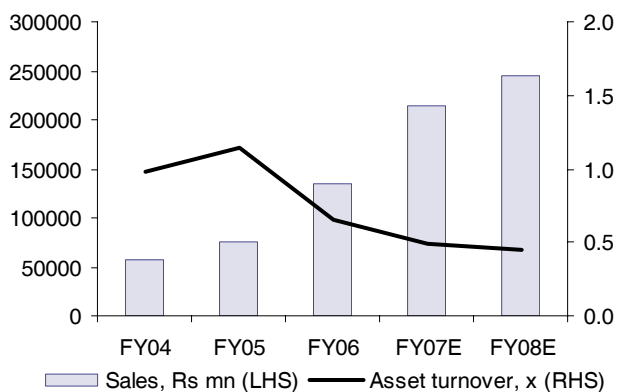
ASSUMPTIONS AND VALUE DRIVERS

Y/E Mar	FY03	FY04	FY05	FY06E	FY07E	FY08E
Volumes (mt)						
Aluminium – BALCO	95,490	97,088	100,272	105,286	280,000	332,500
Copper – Tuticorin	155,699	185,200	171,992	273,000	280,000	375,000
Zinc	207,066	261,226	265,924	312,000	360,000	390,000
Average prices						
Aluminium (US\$/Tonne)	1,677	1,736	1,968	1,948	2,278	2,300
Copper Metal (US\$/Tonne)		1,861	2,224	3,167	5,000	5,000
Zinc (US\$/Tonne)	800	899	1,105	1,537	2,600	2,000
Average Costs (US\$/Tonne)						
Aluminium	1,239	1,252	1,576	1,679	1,775	1,583
Copper (US c/lb)	9.1	7.8	7.1	7.0	6.5	6.2
Zinc	663	571	683	717	717	650

Source: Man Financial Research Estimates

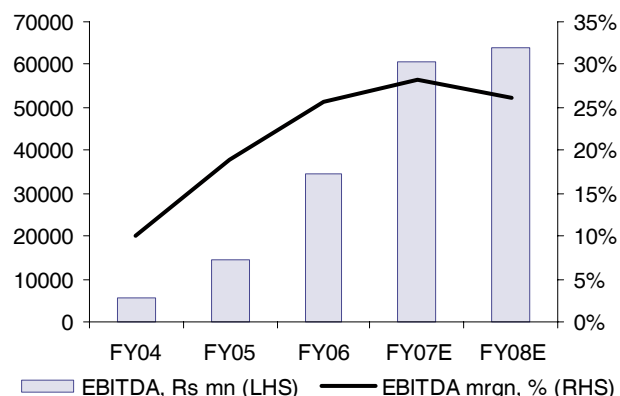
Value creation

Sales and asset turnover



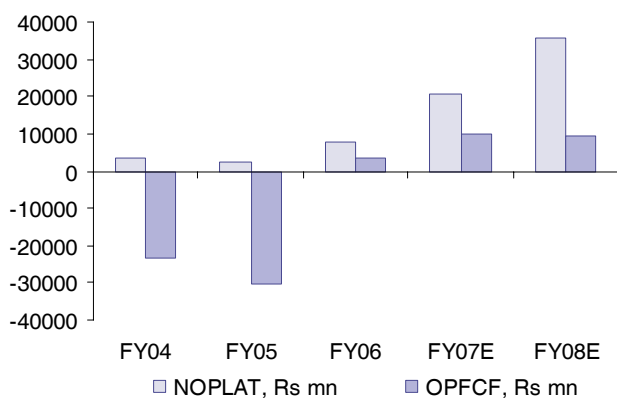
- The decline in asset turnover is because of the ongoing capex that will continue for the next two years

EBITDA and EBITDA margin



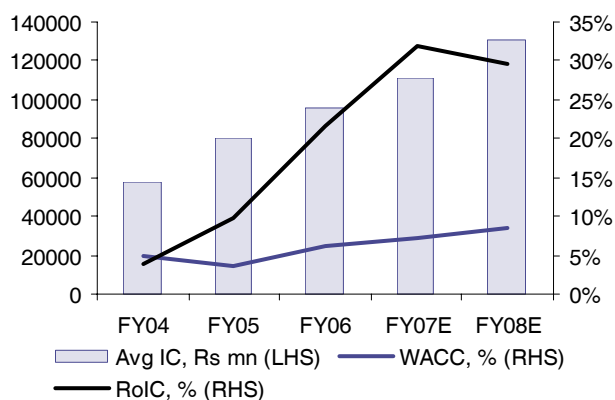
- EBITDA margin is likely to plateau as copper accounts for 52% of net sales and only 17% of FY07E EBITDA

Noplat and OPFCF



- Operating free cash flow is on the rise driven by volume and sharp increase in realisation

Economic profit



- Increase in the value spread (RoIC-WACC) is driven by rising profitability

ABOUT STERLITE INDUSTRIES

The Anil-Aggarwal promoted Sterlite Industries is India's largest base metals producer. Sterlite Industries has transformed itself significantly over the last 18 years when it came out with a public offering to finance its first polythene insulated jelly-filled copper cables plant. In 1991 it established a continuous cast copper rod plant. In 1993, the company entered into the aluminium business by commissioning a plant for manufacturing aluminium sheets and foils and in the same year it merged Sterlite Communications Ltd, which manufactured optical fibres, with itself.

India's largest base metals producer

Started with polythene insulated jelly-filled copper cables plant — subsequently entered aluminium sheets and foils and optical fibres

In 1995, the promoters entered the aluminium production business by acquiring an 80% interest in Madras Aluminium Company as part of a restructuring exercise. Later in 1997, Sterlite commissioned its first private copper smelter at Tuticorin to secure supplies for its copper rod plant. In order to secure supplies for concentrates to the smelter, Sterlite, through its subsidiaries, acquired two copper mines, Copper Mines of Tasmania Pty. Ltd. and Thalanga Copper Mines Pty. Ltd.

In 2000, Sterlite demerged its telecommunications and cables business into a separate company, Sterlite Optical Technologies Ltd., and in 2001 it acquired 51% stake in Bharat Aluminium Company (BALCO) from the Government of India. In 2002, Sterlite acquired a 26% stake in Hindustan Zinc Ltd (HZL) through its subsidiaries and a further 20% through an open offer. Sterlite further increased its stake to 64.9% in November 2003 by exercising a call option granted by the Government.

In 2000, Sterlite demerged its telecommunications and cables business

In 2002, Sterlite acquired a 26% stake in Hindustan Zinc

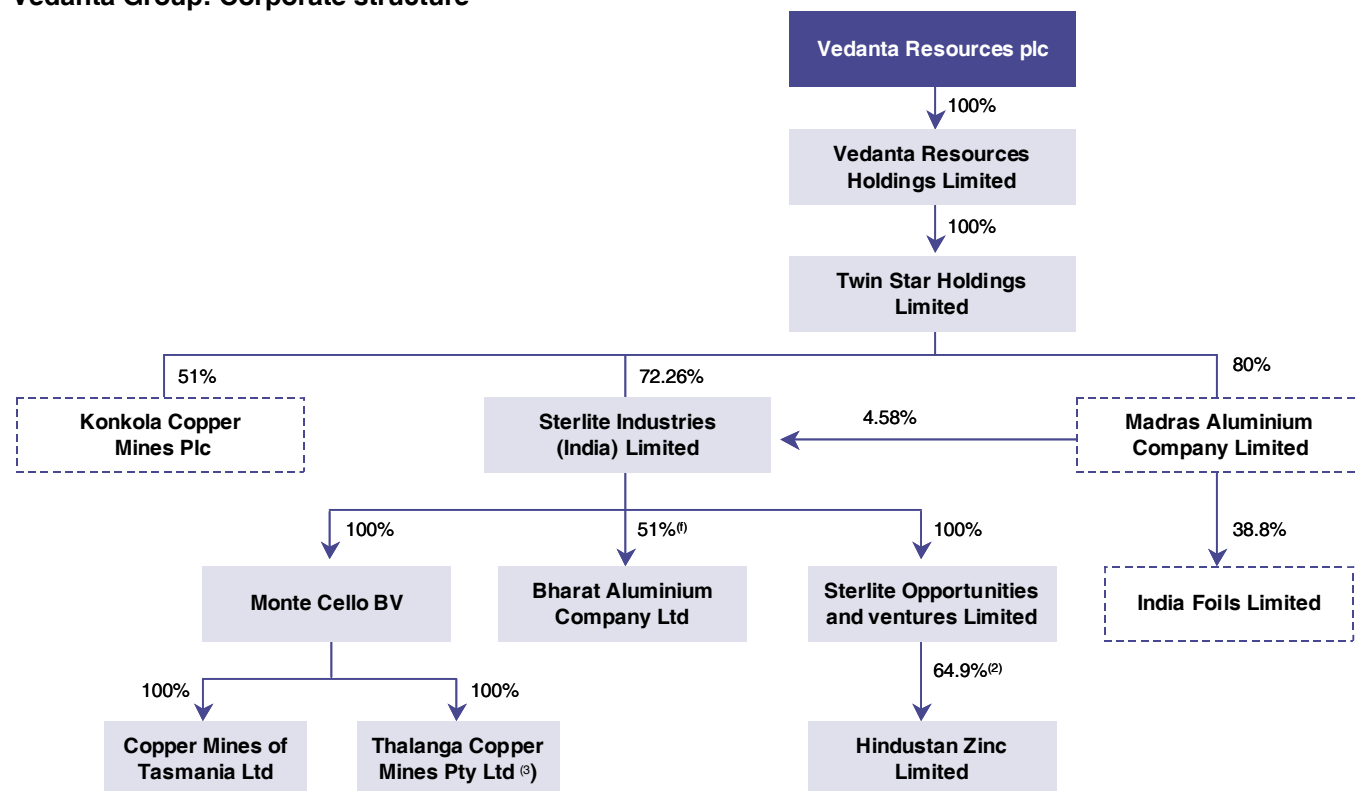
In 2003, Sterlite Industries' promoters consolidated all their holdings under Vedanta Resources Plc and issued 130mn shares of Vedanta Resources for GBP 507mn : (1) to raise capital for BALCO's Orissa expansion project and (2) to reduce minority interests, and (3) to raise capital.

Vedanta Resources is listed on the London Stock Exchange and the promoters continue to hold 53.8% of its equity through Volcan Investments.

Vedanta Resources

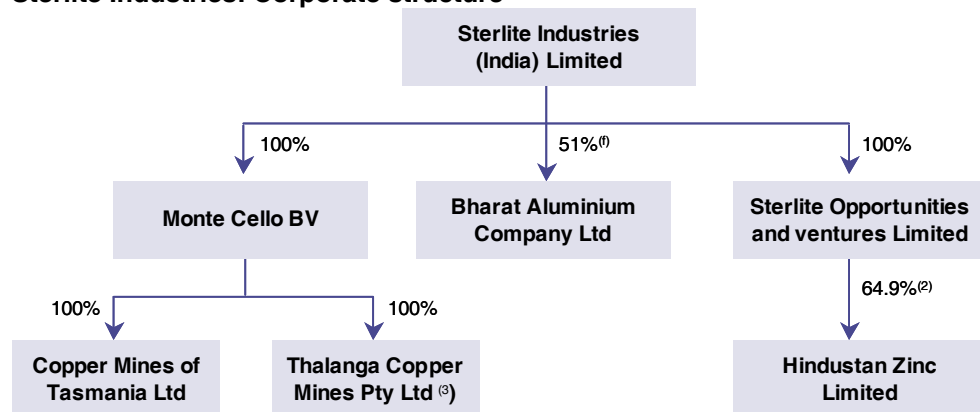
Vedanta Resources is Sterlite's promoter company, which, besides its 75.9% economic interest in Sterlite through its subsidiaries, has controlling interests in Konkola Copper Mines (KCM), Madras Aluminium Company, Vedanta Alumina, and Sterlite Gold.

Vedanta Group: Corporate structure



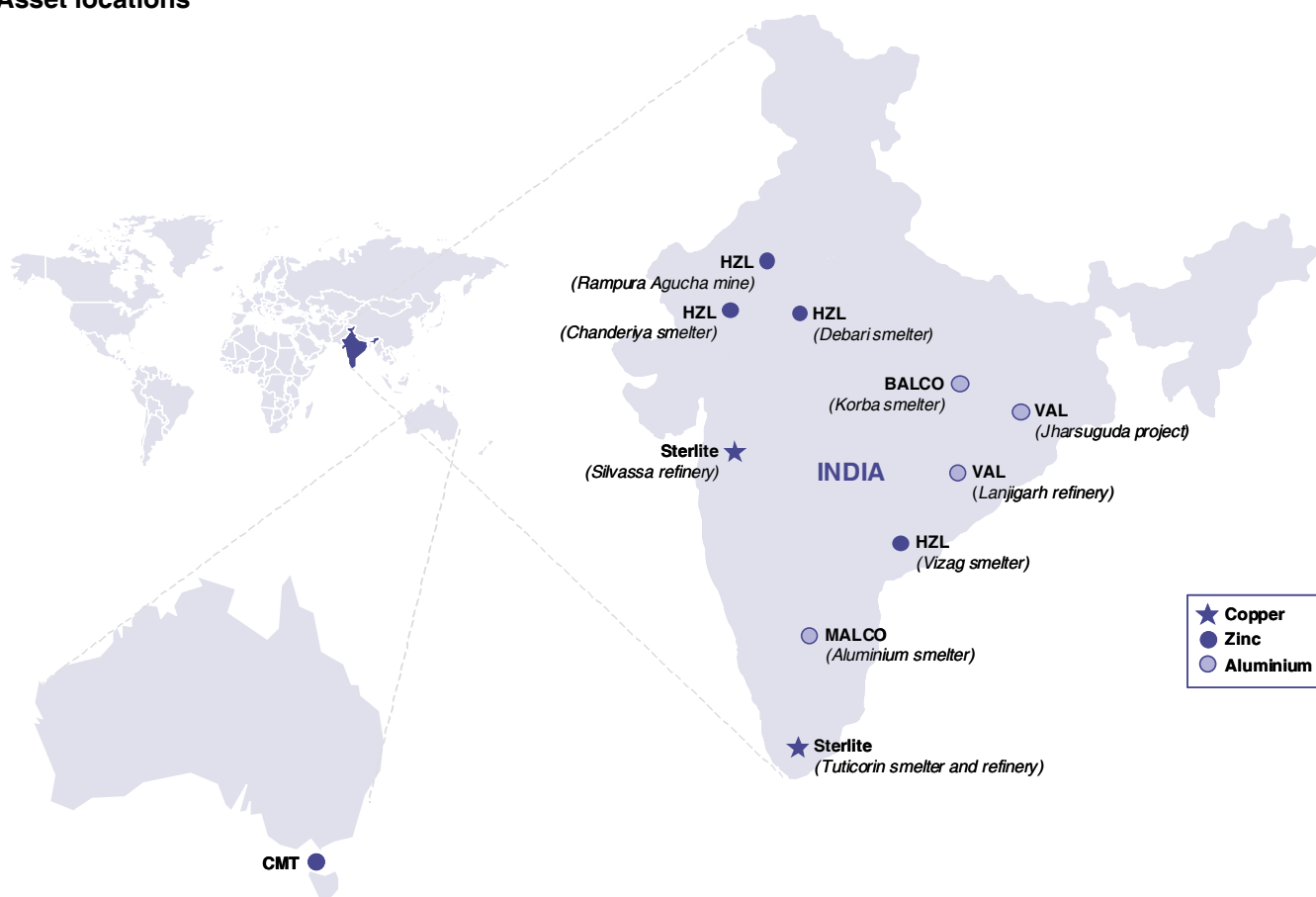
Source: Company data

Sterlite Industries: Corporate structure



Source: Company data

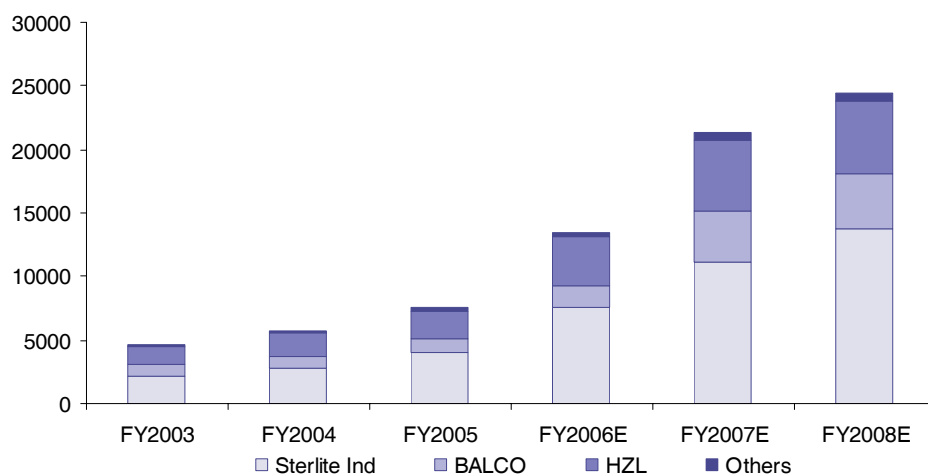
Asset locations



Source: Company data

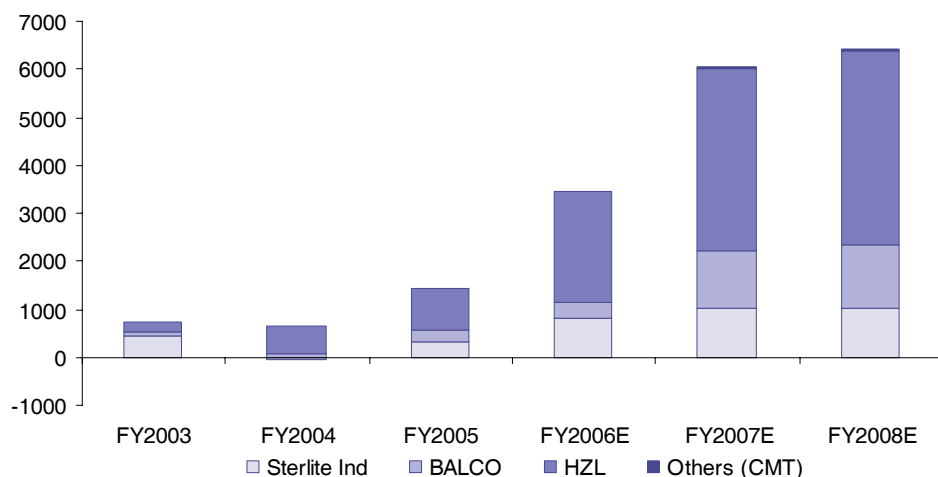
Commodity-wise revenue and earnings break-up

Sales break-up



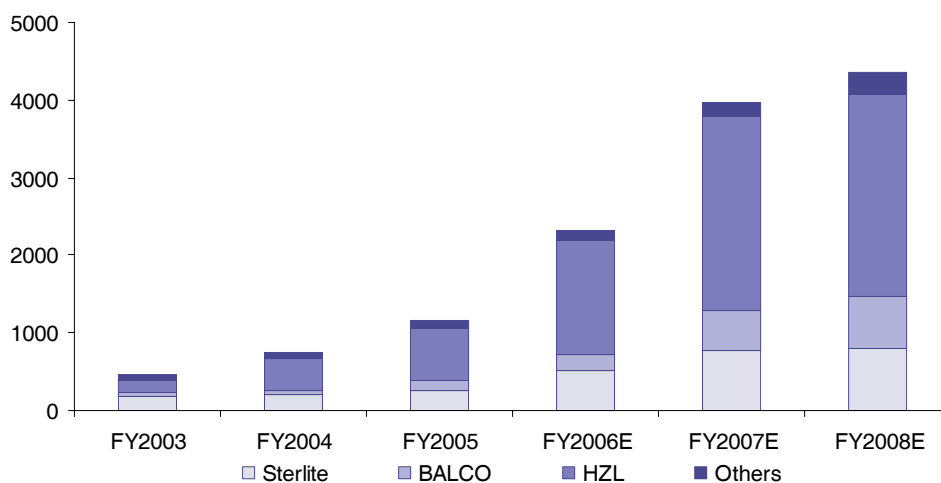
Source: Company, Man Financial Research Estimates

EBITDA break-up



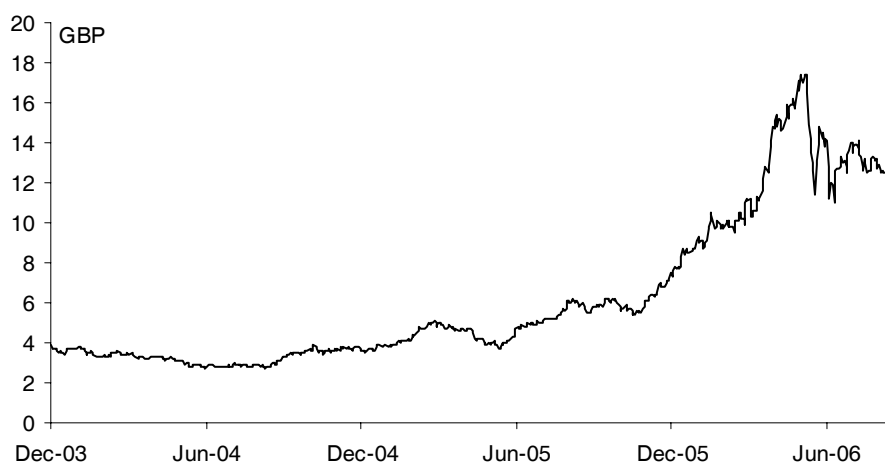
Source: Company, Man Financial Research Estimates

PAT break-up



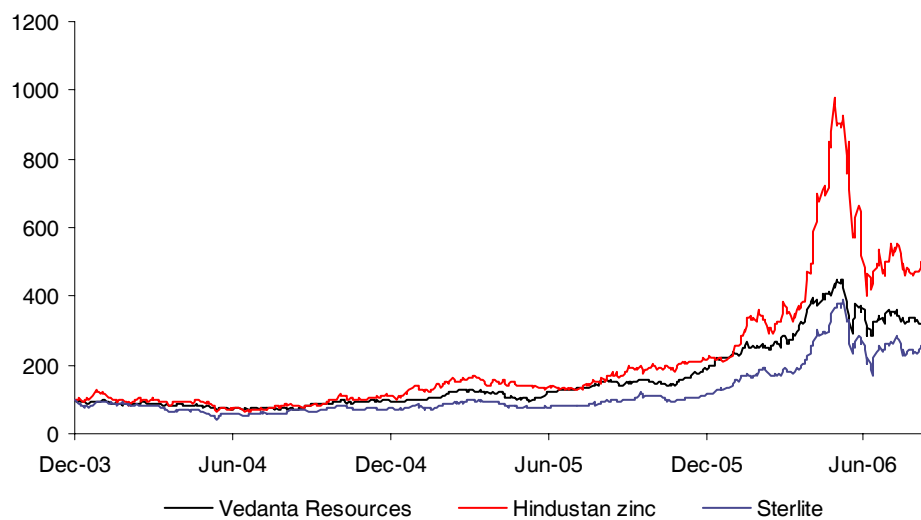
Source: Company, Man Financial Research Estimates

Vedanta Resources Plc (LSE)



Source: Bloomberg

Relative price performance



Source: Bloomberg

INVESTMENT THESIS

Sterlite is India's largest non-ferrous metal player with exposure to aluminium, copper and zinc. All its business segments will see strong volume growth over the next 2-3 years. Another advantage is that its minority interests in aluminium and zinc segments are likely to come down.

Besides, Sterlite is expanding its capacity at the right time when commodity prices are favourable. Due to full integration (except copper) it will be able to record strong free cash flows from all business segments. It lies at the low end of the cost curve for almost all the metals due to full integration and captive power sources. Added to this, we expect strong domestic demand for base metals to hold.

Based on SOTP we are establishing price target of Rs 549

We have arrived at a sum-of-parts (SOBP)-based target of Rs 549, for Sterlite Industries, which is almost 39% above its CMP. At our target price, we have valued its subsidiaries at Rs 387 (after a 30% discount to the SOP value) and its core business at Rs 162 (2x FY07E P/B).

In our assumptions, Hindustan Zinc (HZL) contributes to nearly 57% of the total value of Sterlite's subsidiaries. In our current valuation of Sterlite, we have applied the P/B method to its (standalone) FY07E revenue estimates, due to the nature its copper business.

We believe SOP valuation reflects Sterlite's true value because a significant part of its value is derived from its subsidiaries, which have entered a strong growth phase.

HZL presently contributes about 57% of the total value of subsidiaries

Sum-of-parts valuation

	Sterlite Stake	Value of Sterlite stake - Rs per share		Based on FY07E
		FY07 (Rs mn)		
Copper mining business	100%	1878.45	3.4	1.5x PB
Bharat Aluminium Company	100%	53,156	95.1	8x
Hindustan Zinc	65.50%	249,083	445.6	Target market cap
Vedanta Alumina	30%	4,968	8.9	3x P/B
		309,086	552.9	
(A) Total subsidiary value		309,086		
Total subsidiary value after 30% discount		216,360	387.0	
Value per Sterlite share		389		
(B) Sterlite's core business value		90,528	161.9	2x P/B
Total value (A)+(B)		399,615	549.0	

Source: Man Financial Research Estimates

Note – Sterlite's current stake in BALCO is 51%. However, we have considered a 100% considering that it has exercised its call option for the remaining 49%, which would be transferred to it in due course.

Sterlite business snapshot

Business mix	FY03	FY04	FY05	FY06E	FY07E	FY08E
Revenue mix, %						
Copper	47	50	53	56	52	56
Aluminium	18	15	14	13	19	18
Zinc	31	32	29	29	26	24
Others	3	3	4	2	3	2

EBITDA mix

Copper	59	-5	23	24	17	16
Aluminium	13	13	16	10	20	21
Zinc	30	97	60	66	63	63
Others	-1	-4	1	0	0	0

Revenue drivers

Copper

Volumes (Tons)	184559	174119	273000	280000	375000	400000
YoY, %		-6	57	3	34	7

Aluminium

Volumes (Tons)	95490	97088	100272	211000	355000	370000
YoY, %		2	3	110	68	4

Zinc

Volumes (Tons)	207066	261226	265924	312000	360000	390000
YoY, %		26	2	17	15	8

Source: Man Financial Research

To better understand Sterlite's true value, we analyse each of its four businesses separately:

- Copper business (Sterlite Industries)
- Aluminium (Balco and Vedanta Alumina)
- Zinc (Hindustan Zinc)

COPPER BUSINESS OVERVIEW

Sterlite's copper operations consist of a 300,000 tonne copper smelter at Tuticorin, Tamil Nadu, and a copper mine in Tasmania, Australia. Sterlite's Indian operation is the second largest within the country after Hindalco's Dahej operations. The domestic operations rely on imported concentrates, which are procured through a mix of long-term and spot contracts.

Copper business: India

Sterlite's 300,000-tonne *ISASMELT* (high intensity, submerged lance smelting process) smelter, at Tuticorin in Tamil Nadu is the second-largest custom smelter in India. The smelter uses imported copper concentrates from CMT and other miners to run its smelter.

Copper assets

Copper – India	Type	Capacity
Copper smelter, Tuticorin	Copper Smelter	300,000tpa
Copper refinery, Silvassa	Copper refinery	180,000tpa

Copper – Australia

Mt. Lyell, Tasmania	Copper Mine	30,000tpa
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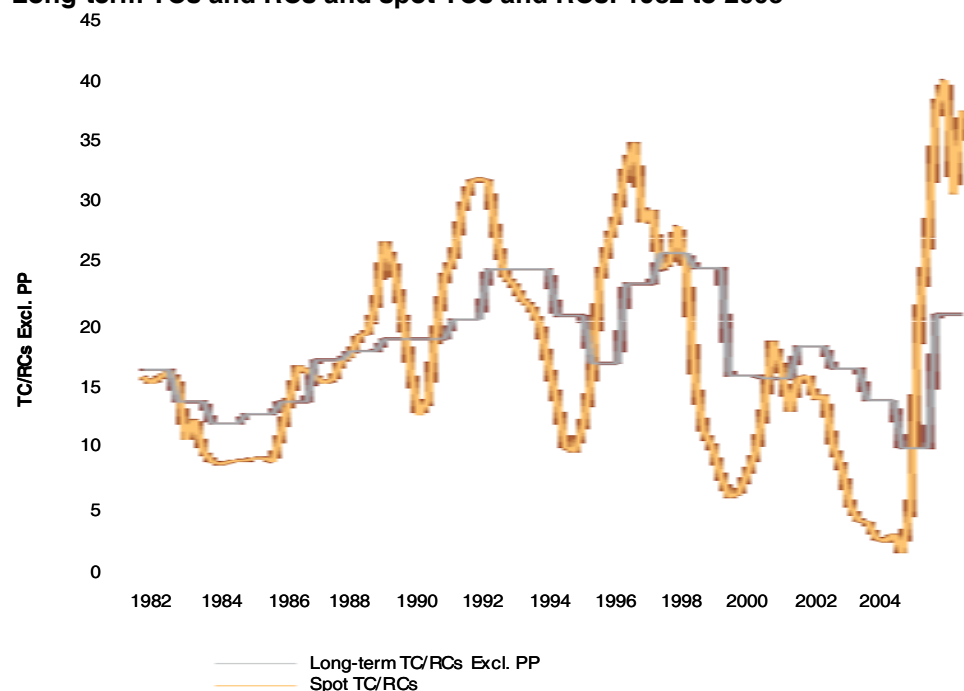
Source: Company data

Copper smelting

	FY2003	FY04	FY05	FY06
Copper cathode production	155,699	185,200	171,992	273,000
Average Cost (c/lb)	9.1	7.8	7.1	6.1

Source: Company data

Long-term TCs and RCs and spot TCs and RCs: 1982 to 2005



Tc/Rc have remained fairly volatile in the past

Source: Company data

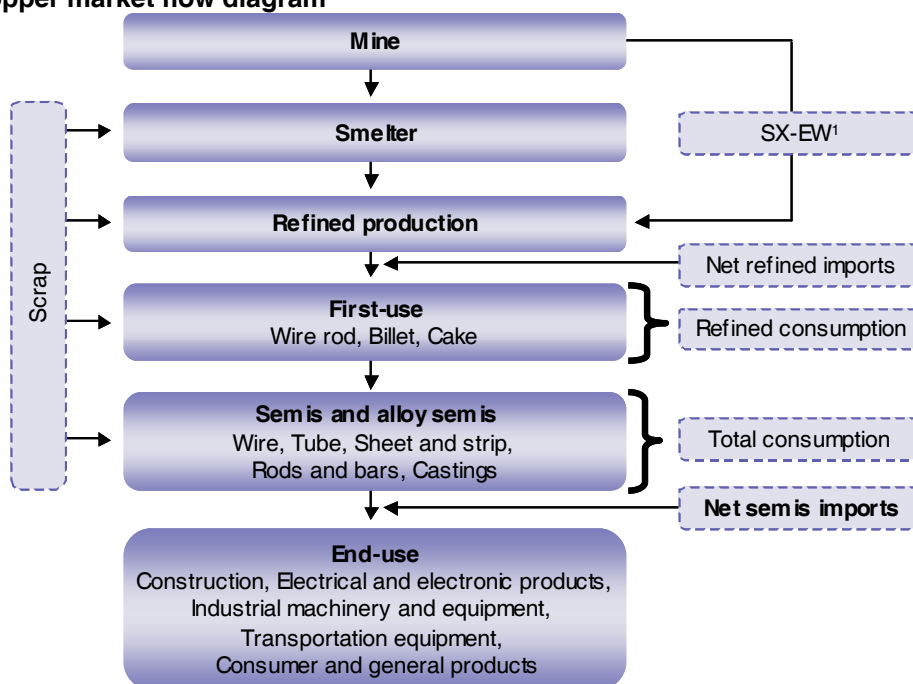
Recent capacity expansion: Sterlite has recently successfully doubled its copper smelting capacity to 300,000 tonnes from 150,000 tonnes and is working towards increasing its smelting capacities further to 400,000 tonnes by the end of the year through internal de-bottlenecking, at a relatively low cost of Rs1.5bn.

Lowering average smelting costs: Being a custom smelter, Sterlite is only indirectly exposed to price risk to the extent of its price participation in the Tc/Rc contracts. Sterlite procures copper concentrates from miners and receives processing charges in the form of treatment and refining margins (Tc/Rc margins). The copper concentrates contain about 25-30% of copper and have two distinct spot and long-term markets.

Sterlite is only indirectly exposed to price risk to the extent of its price participation in the Tc/Rc contracts

Sterlite has managed to post strong results in the copper smelting division in the recent past because of its low-cost operations and efficient smelter operations. Over the last five years it has managed to reduce copper smelter costs by about 40% to 6c/lb from 10c/lb due to higher volumes, better recovery of metal, and improved realisations of its by products. Going forward, with capacities increasing further by 33%, we expect costs to remain at current levels with a downward bias due to larger economies of scale.

Copper market flow diagram



Note:

¹ SX-EW means solvent extraction and electrowinning production

Source: Company

Copper quarterly global supply — demand balance

('000 tonnes)	2005Q4	2006Q1	2006Q2	2006Q3	2006Q4	2007Q1	2007Q2
Refined Consumption	3,152	3,057	3,169	3,235	3,307	3,192	3,290
	4.7%	4.4%	4.8%	5.4%	4.9%	4.4%	3.8%
Mine Production	3,123	3,052	3,119	3,168	3,223	3,177	3,244
East to West Trade	-66	-70	-70	-70	-70	-74	-74
Total Supply	2,961	2,995	2,992	3,067	3,116	3,113	3,117
		5.0%	5.0%	5.0%	5.0%	4.0%	4.0%
Reported Balance	34	75	-12	-15	-55	53	-28
Stocks	520	596	584	569	514	568	540
Stocks Usage Ratio	2.2	2.5	2.4	2.4	2.1	2.3	2.2

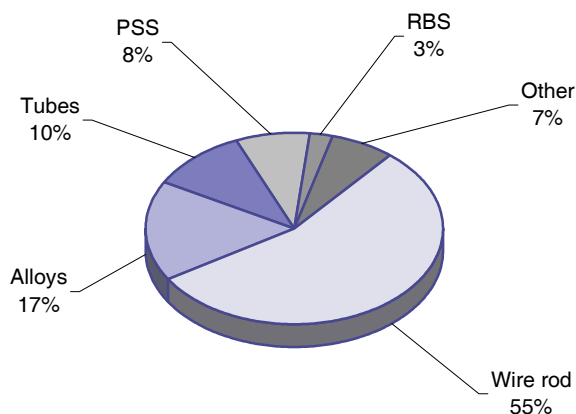
Source: Man Metals

Copper global supply - demand balance

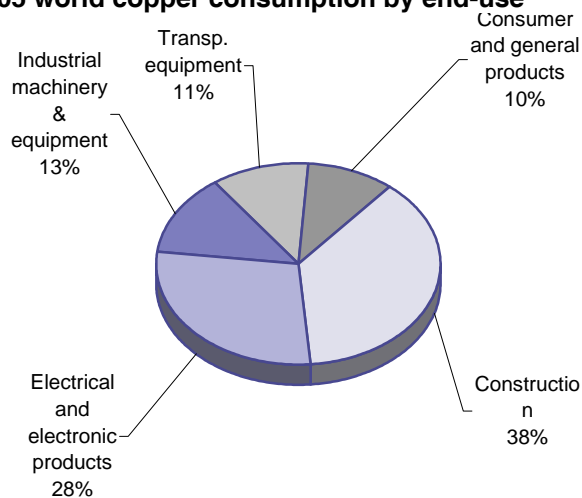
('000 tonnes)	2003	2004	2005	2006
Refined Consumption	11,358	12,290	12,170	12,769
	-1.4%	8.2%	-1.0%	4.9%
Mine Production	11,071	11,850	12,011	12,561
East to West Trade	-310	-249	-264	-280
Total Supply	11,150	11,355	11,569	12,171
	-6.1%	1.8%	1.9%	5.2%
Reported Balance	-503	-691	22	-6
Stocks	1189	498	520	514
Stocks Usage Ratio	5.5	2.1	2.2	2.1

Source: Man Metals

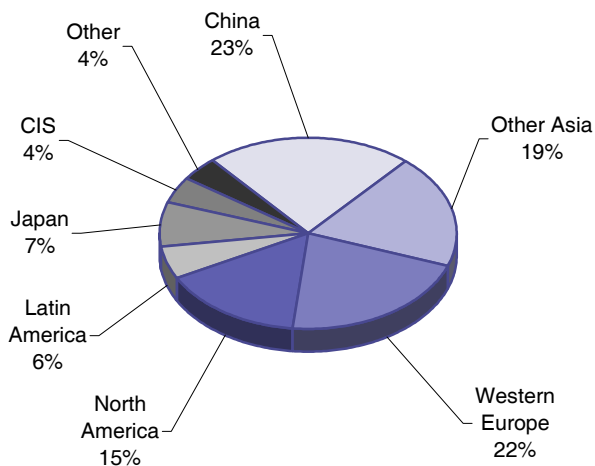
2005 world copper consumption by first-use



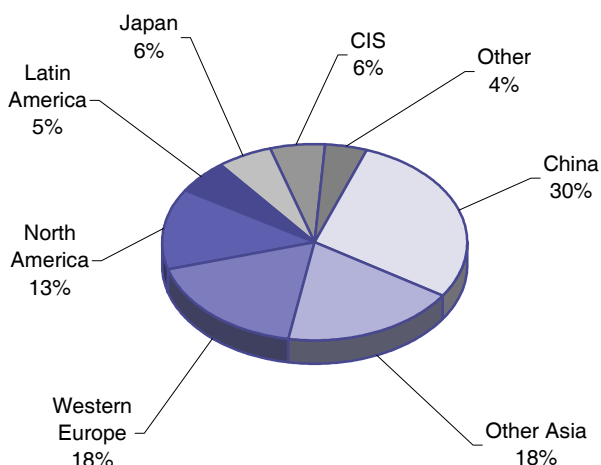
2005 world copper consumption by end-use



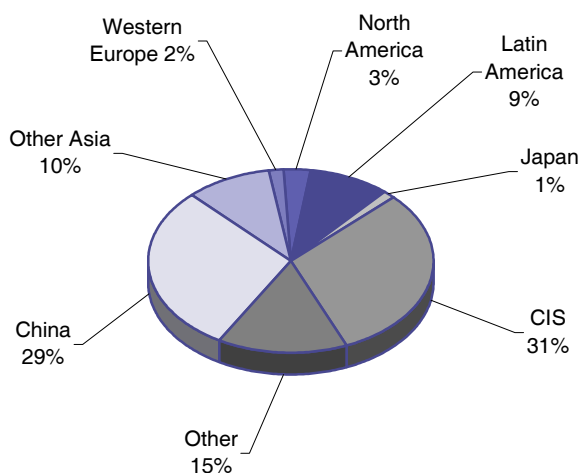
2005 world copper demand by geography – 16.9mt



2010 world copper demand by geography - 20.8mt



World copper consumption growth 2006-2010E



Source: Industry reports

Copper business: Australia

Through its subsidiary, Monte Cello B.V., Sterlite Industries owns two copper mines — Copper Mines of Tasmania (CMT) and Thalanga Copper Mines (TCM). However, TCM's mining life expired and it was recently disposed off. Therefore, CMT is Sterlite's only mine in Australia.

CMT is Sterlite's only mine in Australia

CMT's underground copper mine and copper-processing facility is situated at Mt. Lyell, a region that is being mined since 1880. The facilities are located in the Queenstown region on the west coast of the State of Tasmania, Australia. The mine produces copper concentrates, which also contains small amounts of gold and silver.

Key risks

- Sterlite's copper business is dependent on purchased concentrates, which are procured through a mix of long-term and short-term contracts with the miners. The copper mining industry is currently plagued with series of worker strikes and shortage of skilled manpower and equipments, which has caused serious supply disruptions leading to delayed delivery of concentrates to miners. Sterlite being a standalone smelter is vulnerable to such supply shocks.

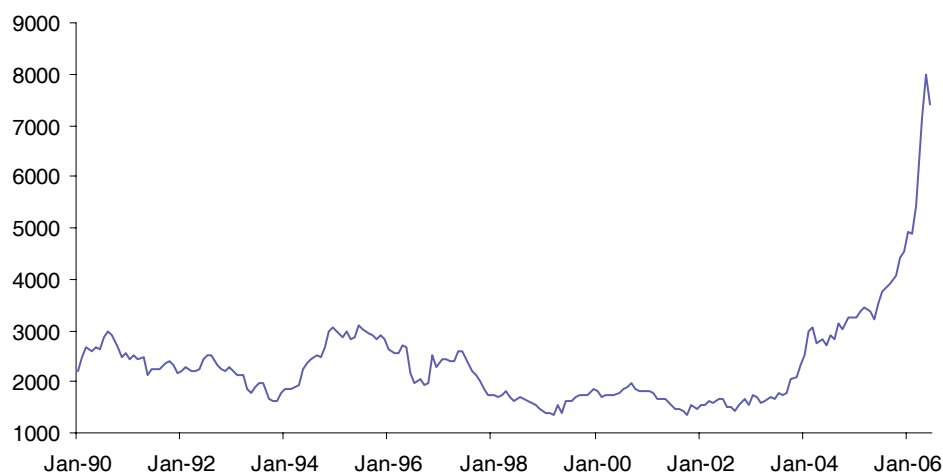
Copper business – Key assumptions

	FY07E	FY08E
Copper Price (\$/tonne)	\$5,000	\$4,500
Copper Tc/Rc (c/lb)	22	20
Copper Mined (tonne)	24,000	20,000
Copper Refined (tonne)	280,000	375,000
Copper Cost (c/lb)	6.5	6.2

Source: Man Financials Research Estimates

We have assumed copper prices at US\$ 4,500 in FY08E and Copper Tc/Rc at 20 c/lb

Copper LME Spot Price (US\$)

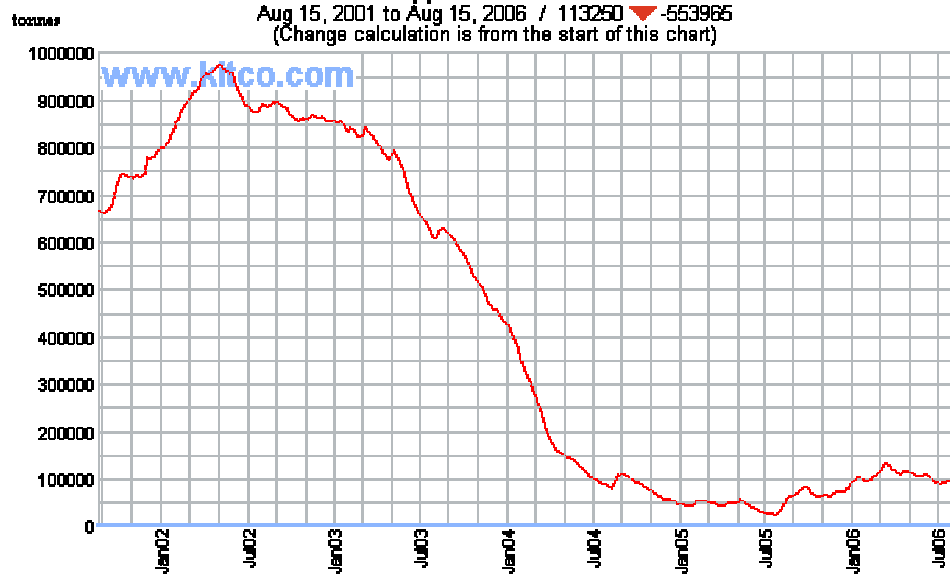


Source: Bloomberg

Copper prices have soared in the last two years

Copper

5 Year LME Copper Warehouse Stocks Level
 Aug 15, 2001 to Aug 15, 2006 / 113250 ▼ 553985
 (Change calculation is from the start of this chart)



Source: www.kitco.com

Copper business financials

Sterlite Industries (Standalone)

Income Statement

Y/E Mar, Rs mn	FY03	FY04	FY05	FY06E	FY07E	FY08E
Net sales	22,049	28,524	39,917	75,039	110,805	137,349
<i>Growth</i>	<i>39%</i>	<i>29%</i>	<i>40%</i>	<i>88%</i>	<i>48%</i>	<i>24%</i>
Other income	287	4,599	1,154	1,160	1,300	1,250
Total income	22,335	33,123	41,071	76,199	112,105	138,599
Operating expenses	17,717	28,840	36,596	66,925	100,583	127,161
EBITDA	4,331	(316)	3,321	8,114	10,222	10,188
<i>Growth</i>	<i>59%</i>	<i>-107%</i>	<i>-1152%</i>	<i>144%</i>	<i>26%</i>	<i>0%</i>
<i>Margin</i>	<i>20%</i>	<i>-1%</i>	<i>8%</i>	<i>11%</i>	<i>9%</i>	<i>7%</i>
Depreciation	1,059	1,084	1,141	1,282	1,372	1,494
EBIT	3,272	(1,400)	2,180	6,832	8,850	8,694
<i>Growth</i>		<i>-143%</i>	<i>-256%</i>	<i>213%</i>	<i>30%</i>	<i>-2%</i>
<i>Margin</i>	<i>15%</i>	<i>-5%</i>	<i>5%</i>	<i>9%</i>	<i>8%</i>	<i>6%</i>
Interest paid	1,617	1,231	1,027	1,204	1,014	588
Pre-tax profit	1,942	1,968	2,308	6,788	9,136	9,357
Tax provided	265	(4)	(20)	1,676	1,370	1,404
Profit after tax	1,677	1,972	2,689	5,111	7,766	7,953
MAN Net profit	1,677	1,972	2,689	5,111	7,766	7,953
<i>Growth</i>	<i>84%</i>	<i>18%</i>	<i>36%</i>	<i>90%</i>	<i>52%</i>	<i>2%</i>
Unadj. shares (m)	56	56	56	56	56	56
Wtd avg shares (m)	56	56	56	56	56	56

Balance Sheet

As at 31st Mar, Rs mn	FY03	FY04	FY05	FY06E	FY07E	FY08E
Cash & bank	668	1,639	6,154	3,928	6,907	3,422
Debtors	1,726	3,046	4,095	7,132	6,661	8,048
Inventory	3,490	3,743	5,717	8,223	12,143	13,170
Loans & advances	5,745	5,672	5,059	5,312	5,577	5,856
Total current assets	11,629	14,100	21,024	24,595	31,288	30,496
Investments	11,885	16,125	29,863	29,863	29,863	29,863
Gross fixed assets	20,183	21,275	22,947	25,447	27,447	29,877
Less: Depreciation	4,598	5,991	7,329	8,611	9,983	11,477
Add: Capital WIP	1,160	3,377	2,533	-	-	-
Net fixed assets	16,746	18,661	18,151	16,836	17,463	18,399
Non-current assets	19	11	7	-	10	20
Total assets	40,279	48,897	69,045	71,294	78,625	78,779
Current liabilities	6,571	6,572	4,617	6,448	9,948	12,074
Provisions	355	372	1,146	3,006	3,028	3,316
Total current liabilities	6,926	6,944	5,763	9,453	12,976	15,390
Deffered Tax	3,538	3,433	3,090	3,290	3,490	3,690
Debt	17,275	24,121	24,395	19,395	16,895	8,395
Total liabilities	27,739	34,498	33,248	32,138	33,361	27,475
Paid-up capital	179	578	768	1,118	1,118	1,118
Reserves & surplus	12,360	13,822	35,030	38,037	44,146	50,187
Shareholders' equity	12,540	14,399	35,797	39,155	45,264	51,305
Total equity & liabilities	40,279	48,897	69,045	71,294	78,625	78,780

Per-share data

	FY03	FY04	FY05	FY06E	FY07E	FY08E
MAN EPS (INR)	3	4	5	9	14	14
<i>Growth</i>	84%	18%	36%	90%	52%	2%
Book NAV/share (INR)	22	25	64	70	81	92
FDEPS (INR)	3	4	5	9	14	14
CEPS (INR)	5	5	7	11	16	17
CFPS (INR)	-5	-13	-29	6	17	17
DPS (INR)	3	1	2	3	3	3

Financial stability ratios

	FY03	FY04	FY05	FY06E	FY07E	FY08E
Total debt/Equity (%)	1.4	1.7	0.7	0.5	0.4	0.2

ALUMINIUM BUSINESS

Sterlite has interests in aluminium business through its 51% subsidiary Bharat Aluminium Company, which it acquired in the government's disinvestments process.

Apart from BALCO, Sterlite has a 30% interest in Vedanta Alumina. Vedanta Alumina is currently setting up a greenfield 1-1.4mn tonne alumina refinery at Lanjigarh, Orissa, and will have a captive source for bauxite. The Vedanta Alumina project also includes a 0.5mn tonne aluminium refinery at Jharsuguda, Orissa, with a captive power plant. The aluminium smelter will be set-up in two stages and will be fully operational by 2010.

Vedanta Alumina is currently setting up a greenfield 1-1.4mn tonne alumina refinery at Lanjigarh, Orissa, and will have a captive source for bauxite

Bharat Aluminium Company (51% holding to go up to 100%)

Bharat Aluminium Company (BALCO) is a subsidiary of Sterlite and was acquired through the government's privatisation process. BALCO's operations are mainly divided into two segments — BALCO-I and the newly set up BALCO-II operations.

BALCO I comprises of two bauxite mines, a 200,000tpa alumina refinery, 270MW power plant, and a 130,000tpa aluminium smelter.

BALCO II, which is currently being commissioned and will be fully operational in Q2FY07, is a 250,000tpa aluminium smelter with a 540MW captive power plant. The BALCO II smelter relies on purchased alumina.

Aluminium business assets

Mines	Type	Reserves (mmt)	Life
Mainpat, Chhattisgarh	Bauxite mine	4.4	12 years
Bodai- Daldali, Chhattisgarh	Bauxite mine	7.1	12 years
Operations			
BALCO I		TPA	
Korba Refinery, Chhattisgarh	Alumina refinery	200,000	
Korba Smelter, Chhattisgarh	Aluminium smelter	130,000	
Power Plant		240MW	
BALCO II			
Korba Smelter, Chhattisgarh	Aluminium smelter	250,000	
Power Plant		540MW	

The aluminium business' assets consist of two bauxite mines with combined reserves of 11.5mmt, one refinery, two smelters and two power plants

Source: Company Data, Man Financials Research

Key statistics

	FY02	FY03	FY04	FY05	FY06E
Aluminium (US\$/Tonne)	\$1576	\$1252	\$1239	\$1347	\$1545
Production					
Aluminium	68,000	96,000	97,000	100,000	121,000

Source: Man Financial Research Estimates

Capacity expansions

BALCO has recently expanded its aluminium-smelting capacities to 350,000tonnes from 100,000tonnes and is setting up a new aluminium smelter with Chinese GAMI technology. The smelter is expected to begin full production in Q2FY07. The aluminium smelter is self-contained with a 540MW captive power plant.

Dual cost structure: With the new smelter expected to be commissioned shortly, BALCO will have a dual cost structure where the existing plant will have captive alumina and the new plant will rely on external alumina.

BALCO cost structures

Smelter	Capacity	Cash cost/per ton
Old	100,000	\$1,497
New	250,000	\$2,045

Source: Man Metals

The new smelter's cost per ton of alumina is expected to be 36% higher than the old one since it has to rely on external alumina until the Vedanta Alumina project comes on-stream by the middle of next year

Alumina sourcing: BALCO II currently sources its alumina requirements through imports. However, from March 2007, it will start procuring alumina from its sister concern Vedanta Alumina, which will begin production at its new 1-1.4mn tonne alumina refinery in Lanjigarh, Orissa. The current alumina is being procured on spot, which is currently ruling at \$500-550. Costs will come down significantly once Vedanta Alumina goes onstream.

Elimination of minority interests

Sterlite Industries acquired 51% of BALCO through the government's privatisation process. The agreement with the government provided for the acquisition of the balance 49% and also for the valuation process for this stake. Accordingly, Sterlite exercised its call option to buy the remaining shareholding and paid for the remaining 49%, at a price fixed by an independent valuer. However, due to valuation differences, the government is yet to transfer the shareholding. Therefore, for our FY07E assumptions for Sterlite, we have considered zero minority interests.

Global aluminium market scenario

Aluminium supply -demand outlook, kt

	Shipments		Production		Inventories		Wks
	K Tones	% chg	Prod-kt	% chg	K Tones	% chg	Use
2004	19,025	6.9%	18,452	2.8%	2,243	(573)	6.1
2005Q1	4,699	-3.3%	4,596	0.0%	2,140	(103)	5.9
2005Q2	4,823	0.6%	4,793	4.4%	2,111	(30)	5.8
2005Q3	4,960	2.2%	4,905	6.3%	2,055	(55)	5.6
2005Q4	4,773	5.7%	4,922	5.7%	2,204	149	6
2005	19,255	1.2%	19,216	4.1%	2,204	(39)	6
2006Q1	4,894	4.2%	4,945	7.6%	2,254	50	6.2
2006Q2	5,054	4.8%	4,967	3.6%	2,168	(86)	5.9
2006Q3	5,208	5.0%	4,971	1.3%	1,931	(237)	5.3
2006Q4	5,001	4.8%	4,975	1.1%	1,904	(27)	5.2
2006	20,157	4.7%	19,858	3.3%	1,904	(300)	5.2

Source: Man Metals

Aluminium markets to remain in deficit

Price outlook

	Copper	Alum	Zinc	Lead	Nickel	Tin
2005Q1	\$3,268	\$1,900	\$1,317	\$979	\$15,348	\$8,086
2005Q2	\$3,389	\$1,790	\$1,273	\$987	\$16,411	\$7,963
2005Q3	\$3,757	\$1,829	\$1,297	\$892	\$14,567	\$7,047
2005Q4	\$4,303	\$2,074	\$1,638	\$1,048	\$12,669	\$6,440
2005Avg	\$3,679	\$1,898	\$1,381	\$976	\$14,749	\$7,384
2006Q1	\$4,800	\$2,349	\$2,068	\$1,206	\$14,691	\$7,523
2006Q2	\$5,000	\$2,400	\$2,100	\$1,200	\$14,000	\$7,000
2006Q3	\$4,200	\$2,100	\$1,800	\$1,100	\$12,000	\$6,500
2006Q4	\$4,500	\$2,300	\$1,950	\$1,000	\$11,000	\$6,000
2006Avg	\$4,625	\$2,287	\$1,980	\$1,127	\$12,923	\$6,756
2007Avg	\$4,500	\$2,400	\$2,000	\$900	\$10,000	\$5,500

Source: Man Metals

2007 vs. 2006 (average prices)

- **Copper down 3%**
- **Aluminium up 5%**
- **Zinc up 1%**
- **Lead down 20%**
- **Nickel down 23%**
- **Tin down 19%**

Robust demand growth in domestic markets

The domestic aluminium markets have witnessed a strong revival in demand in the last few years due to higher usage by the electrical, automobiles and constructions sectors.

Domestic demand

End-user sectors	Share (per cent)	Growth rate (2006-07)
Electrical	36.0	8.0
Automobiles	22.0	12.5
Construction	13.0	12.0
Packaging	11.0	11.0
Consumer durables	8.0	8.0
Industrial	6.0	10.0
Others	4.0	5.0

Source: Cris Infac

Electrical, automobiles, and construction segments make up for more than 70% of domestic aluminium demand

Earnings sensitivity

Impact on Sterlite's earnings from change in aluminium prices considering 100% ownership in BALCO:

Sensitivity analysis

	-10%	-5%	Base	5%	10%
Aluminium price	2070	2196.5	2300	2415	2530
FY07 EPS to Sterlite	7.6	8.3	9	9.7	10.4

Source: Man Financial Research

Key risks

- Dependence on external alumina:** BALCO has recently expanded its aluminium-smelting capacities to 350,000 tonnes from 100,000 tonnes with a corresponding increase in alumina refining capacity leaving the incremental capacity exposed to external alumina sources. The alumina will be procured from international sources due to limited availability in domestic markets because of the prior commitments of local players. Alumina prices in the international markets have been volatile and have shown an upward trend.
- Price risks:** Local aluminium prices are based on international benchmark prices, which are set on the London Metal Exchange and adjusted for local premium and freight. The prices on the LME fluctuate on a daily basis and are have been extremely volatile recently.

The alumina will be procured from international sources

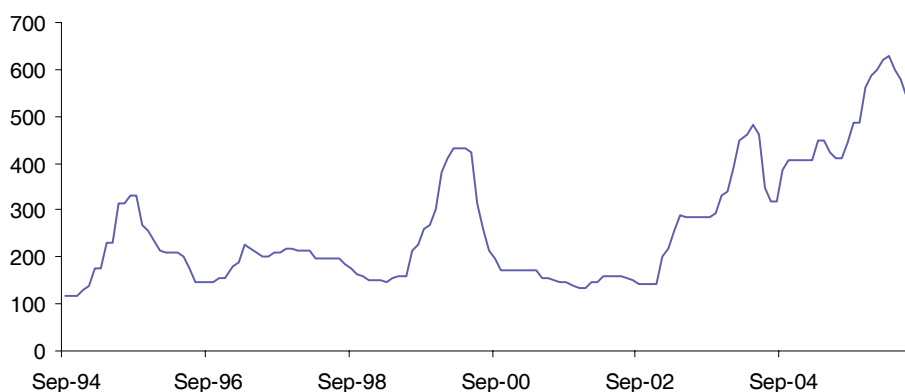
Key assumptions

	FY07E	FY08E
Aluminium Production (tons)	350,000	365,000
Average Aluminium price (\$ /tonne)	\$2,278	\$2,300
Average Aluminium Cost (\$ /tonne)	\$1,772	\$1,582
Average import duty	7.5%	7.5%
Average cost of purchased alumina	\$550	\$400

Source: Man Financial Research

We assume average aluminium prices at US\$ 2,300 per tonne in FY08

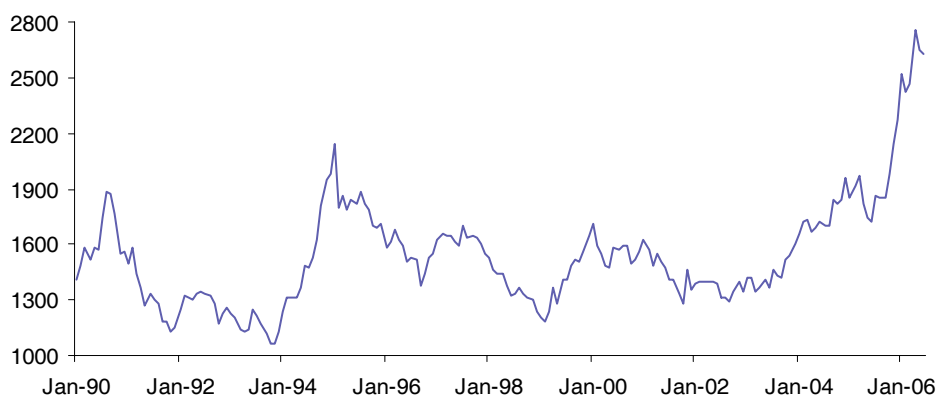
Alumina price chart



Source: Bloomberg

Alumina prices in the international markets have been volatile and have shown an upward trend

Aluminium price chart

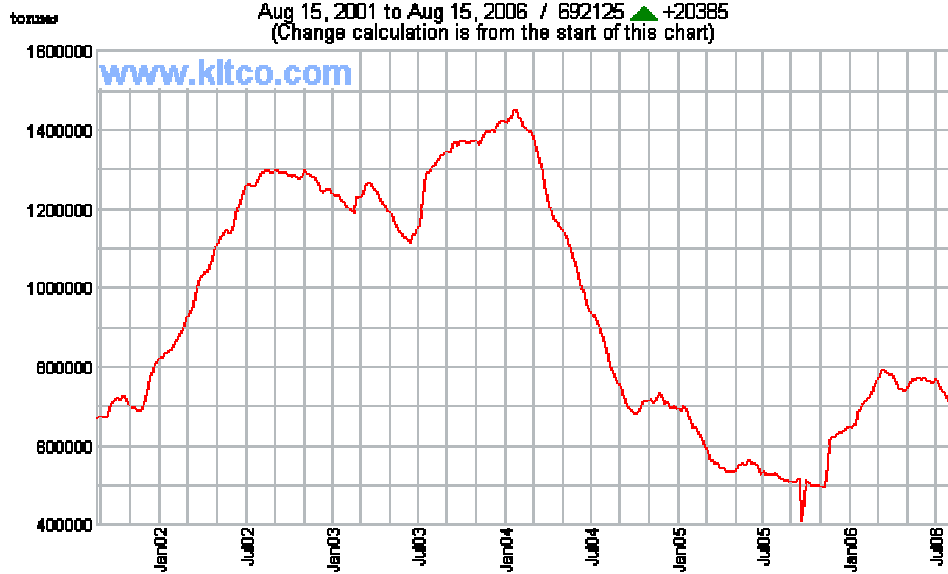


Source: Bloomberg

The prices on the LME fluctuate on a daily basis and are have been extremely volatile recently

Aluminium

5 Year LME Aluminum Warehouse Stocks Level
Aug 15, 2001 to Aug 15, 2006 / 692125 ▲ +20385
(Change calculation is from the start of this chart)



Source: www.kitco.com

BALCO: Financials

Income Statement

Y/E Mar, Rs mn	FY03	FY04	FY05	FY06E	FY07E	FY08E
Net sales	8,522	8,656	10,473	17,317	40,813	42,948
<i>Growth</i>	47%	2%	21%	65%	136%	5%
Other income	451	544	264	290	319	351
Total income	8,972	9,200	10,737	17,607	41,132	43,299
Operating expenses	7,584	7,925	8,221	13,807	28,925	29,549
EBITDA	938	731	2,252	3,510	11,887	13,399
<i>Growth</i>	3116%	-22%	208%	56%	239%	13%
<i>Margin</i>	11%	8%	22%	20%	29%	31%
Depreciation	357	472	534	668	2,284	2,346
EBIT	581	259	1,718	3,220	9,603	11,053
<i>Growth</i>		-55%	563%	87%	198%	15%
<i>Margin</i>	7%	3%	16%	19%	24%	26%
Interest paid	62	85	86	150	2,048	1,398
Pre-tax profit	969	719	1,895	3,070	7,875	10,007
Tax provided	325	44	621	1,013	2,646	3,362
Profit after tax	645	675	1,274	2,057	5,229	6,645
MAN Net profit	645	675	1,274	2,057	5,229	6,645
<i>Growth</i>	244%	5%	89%	61%	154%	27%
Unadj. shares (m)	221	221	221	221	221	221
Wtd avg shares (m)	221	221	221	221	221	221

Cash Flow

Y/E Mar, Rs mn	FY03	FY04	FY05	FY06E	FY07E	FY08E
Pre-tax profit	969.7	718.8	1,895.4	3,070.0	7,875.0	10,006.9
Depreciation	357.1	471.9	534.3	667.9	2,284.3	2,346.1
Chg in working capital	169.8	871.4	-651.4	262.5	-1,190.5	338.9
Total tax paid	-162.6	-47.7	-238.5	-1,013.1	-2,646.0	-3,362.3
Other operating activities	-126.9	-106.5	59.0	150.0	2,047.5	1,397.5
Cash flow from operating activities	1,207.1	1,907.9	1,598.8	3,137.3	8,370.3	10,727.1
Capital expenditure	-279.4	-7,176.2	-17,045.8	-12,000.0	-5,750.0	-2,000.0
Chg in investments	-59.1	-4,388.2	4,495.5	0.0	0.0	0.0
Cash flow from investing activities	-38.9	-11,231.4	-12,307.5	-12,000.0	-5,750.0	-2,000.0
Free cash flow	1,168.2	-9,323.5	-10,708.7	-8,862.7	2,620.3	8,727.1
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0	0.0
Debt raised/(repaid)	-433.1	10,372.0	8,371.3	9,988.9	2,000.0	-10,000.0
Dividend (incl. tax)	0.0	0.0	-124.4	0.0	0.0	0.0
Other financing activities	-144.3	-256.2	-1,026.7	-150.0	-2,047.5	-1,397.5
Cash flow from financing activities	-577.4	10,115.8	7,220.1	9,838.9	-47.5	-11,397.5
Net chg in cash	590.8	792.3	-3,488.6	976.2	2,572.8	-2,670.4

Balance Sheet

As at 31st Mar, Rs mn	FY03	FY04	FY05	FY06E	FY07E	FY08E
Cash & bank	3,546	4,338	849	1,820	4,393	1,722
Debtors	222	313	451	712	1,677	1,765
Inventory	1,017	1,082	1,129	1,891	3,962	4,048
Loans & advances	1,048	846	1,177	1,377	1,577	1,777
Total current assets	5,832	6,578	3,605	5,799	11,609	9,312
Investments	60	4,450	-	-	-	-
Gross fixed assets	11,726	13,142	38,904	50,904	56,654	58,654
Less: Depreciation	7,457	7,929	8,467	9,135	11,419	13,766
Add: Capital WIP	282	6,221	-	-	-	-
Net fixed assets	4,551	11,435	30,436	41,769	45,234	44,888
Non-current assets	404	303	202	208	208	208
Total assets	10,847	22,766	34,244	47,776	57,051	54,408
Current liabilities	2,593	3,727	5,291	6,777	8,823	9,535
Provisions	452	267	135	135	135	135
Total current liabilities	3,046	3,994	5,426	6,912	8,958	9,670
Deffered Tax	508	560	957	957	957	957
Loan funds	768	11,140	19,511	29,500	31,500	21,500
Total liabilities	4,321	15,694	25,893	37,369	41,415	32,127
Paid-up capital	2,206	2,206	2,206	2,206	2,206	2,206
Reserves & surplus	4,319	4,870	6,144	8,201	13,430	20,074
Shareholders' equity	6,526	7,076	8,350	10,407	15,636	22,281
Total equity & liabilities	10,847	22,770	34,244	47,776	57,051	54,407

Per-share data

	FY03	FY04	FY05	FY06E	FY07E	FY08E
MAN EPS (INR)	2.9	3.1	5.8	9.3	23.7	30.1
<i>Growth</i>	243.8	4.6	88.8	61.4	12.1	14.7
Book NAV/share (INR)	29.6	32.1	37.8	47.2	70.9	101.0
FDEPS (INR)	29.6	32.1	37.8	47.2	70.9	101.0
CEPS (INR)	4.5	5.2	8.2	12.4	34.1	40.8
CFPS (INR)	5.3	-42.3	-48.6	-40.2	11.9	39.6
EPS Sterlite at 51%	0.6	0.6	1.2	1.9	4.8	6.1
EPS to Sterlite at 100%	1.2	1.2	2.3	3.7	9.4	11.9
DPS (INR)	0	1.1	0	0.0	0.0	0.0

Financial stability ratios

	FY03	FY04	FY05	FY06E	FY07E	FY08E
Total debt/Equity (%)	0.1	1.6	2.3	2.8	2.0	1.0

Profitability, Productivity, Liquidity and Valuation Ratios

	FY03	FY04	FY05	FY06E	FY07E	FY08E
Return on assets (%)	27%	17%	13%	13%	29%	31%
Return on equity (%)	10%	10%	15%	20%	33%	30%
Return on Invested capital (%)	9%	3%	6%	6%	16%	17%
RoIC/Cost of capital (x)	1.3	0.4	0.9	0.9	2.2	2.4
RoIC - Cost of capital (%)	9%	3%	6%	6%	-	-
Return on capital employed (%)	10%	4%	5%	6%	15%	18%
Asset turnover (x)	0.4	1.1	2.7	2.2	1.1	1.0
Sales/Total assets (x)	1.1	0.5	0.4	0.4	0.8	1.0
Sales/Net FA (x)	1.9	0.8	0.3	0.4	0.9	1.0
Working capital/Sales (x)	0.3	0.3	-0.2	-0.1	0.1	0.0
Fixed capital/Sales (x)	0.9	2.1	2.7	2.3	1.2	1.0
Receivable days	9.5	13.2	15.7	15.0	15.0	15.0
Inventory days	48.9	49.8	50.1	50.0	50.0	50.0
Payable days	42.9	91.9	65.4	60.0	60.0	70.0
Current ratio (x)	1.9	1.6	0.7	0.8	1.3	1.0
Quick ratio (x)	0.8	0.9	0.6	0.7	0.7	0.6
Interest cover (x)	0.1	0.3	0.1	0.0	0.2	0.1
Dividend cover (x)	0.0	5.4	0.0	0.0	0.0	0.0
PER (x)	NA	NA	NA	NA	NA	NA
PEG (x) - y-o-y growth	NA	NA	NA	NA	NA	NA
Price/Book (x)	NA	NA	NA	NA	NA	NA
Yield (%)	NA	NA	NA	NA	NA	NA
EV/Net sales (x)	NA	NA	NA	NA	NA	NA
EV/EBITDA (x)	NA	NA	NA	NA	NA	NA
EV/EBIT (x)	NA	NA	NA	NA	NA	NA
EV/NOPLAT (x)	NA	NA	NA	NA	NA	NA
EV/CE	NA	NA	NA	NA	NA	NA
EV/IC (x)	NA	NA	NA	NA	NA	NA

Source: Company, Man Financial Research Estimates

Vedanta Alumina

Sterlite Industries has a 30% stake in Vedanta Alumina and the rest is held by Vedanta Resources (holding company of Sterlite Industries). Vedanta Alumina is currently setting up a 1.0-1.4mn tonne greenfield alumina refinery at Lanjigarh, Orissa, along with a 0.5mn tonne aluminium smelter at Jharsuguda, Orissa. The alumina resources and the power plant for these facilities would be captive.

The total investment in the Vedanta Alumina is pegged at US\$ 2.9bn (Rs 133bn) to be spent in phases over the next three years.

Major projects under implementation

	Capacity	Budget (US\$ mn)	Expected project commissioning
Alumina – Lanjigarh Refinery	1-1.4mn tons	800	March 2007
Aluminium – Jharsuguda	0.5mn tons	2,100	2009-2010

Source: Company data, Man Financial Research

Operations

About 35-40% of the alumina produced at Vedanta Alumina's Lanjigarh refinery will be sold on long-term contract to BALCO for its new 250,000-tonne smelter and the remaining will be sold in open markets till the Jharsuguda aluminium refinery comes on stream.

The Lanjigarh alumina refinery will have captive sources of bauxite from the Niyamgiri bauxite deposits, whose mining lease is currently pending clearances. If the mines are not procured by end of the year, the company will use third-party bauxite, which will push up costs significantly.

Key cost parameters

	US\$/tonne
Alumina – Captive bauxite	US\$ 100-120
Alumina – Third party bauxite	US\$ 200-225

Source: Man Financial Research

We have currently not factored earnings from Vedanta Alumina in our projections for Sterlite Industries at this stage.

Key assumptions

	FY08E	FY09E
Alumina Volumes (Tons)	800,000	1,000,000
Alumina prices (\$/Tonne)	\$400	\$400
Average alumina cost (\$/tonne)	\$170	\$110
Captive Bauxite	50%	100%

Source: Man Financial Research Estimates

We assume steady alumina prices at US\$ 400 per tonne

Vedanta Alumina: Indicative summary financials (Rs mn)

	FY08E	FY09E
Net Sales	14,720.00	18,400.00
Cost	6,256.00	7,820.00
EBITDA	8,464.00	10,580.00
Interest	900.00	945.00
Depreciation	1,656.00	1,738.80
PBT	5,908.00	7,896.20
PAT	3,958.36	5,290.45
EPS to Sterlite ~30% stake	2.12	2.84

Source: Man Financial Research Estimates

HINDUSTAN ZINC

Hindustan Zinc (HZL) is among the world's top-10 integrated zinc miners and smelters

HZL is India's only integrated zinc play. With its recently expanded zinc smelting capacity of 400,000 tonnes, HZL is well poised to ride the boom in zinc demand and prices.

Its largest zinc concentrate source is its Rampura Agucha mine (Rajasthan), which supplies more than 60% of its total zinc concentrate needs. Its total reserves have recently expanded to 50.1mn tons from 42.3mn tons, which have resulted in an extension of its mining life by three years. The increased mine output will cater to its newly expanded Chanderiya smelter.

Its largest zinc concentrate source is its Rampura Agucha mine (Rajasthan), which supplies more than 60% of its total zinc concentrate needs

Besides its three existing mines — Rampura Agucha mine, Rajpura Dariba mine, and Zawar mine — HZL has several mining and prospecting licenses at locations close to these mines.

HZL's mining assets account for 12 years of reserve

Mine	Capacity	Location
Rampura Agucha mine	2.4mtpa – Ore expanded to 3.75mtpa	Udaipur, Rajasthan
Rajpura Dariba mine	1mtpa – Ore	Udaipur, Rajasthan
Zawar mine	1.2mtpa – Ore	Udaipur, Rajasthan

Source: Company Data

HZL's total smelting capacity after expansion is 400,000tpa

Smelter	Capacity	Location
Chaderiya Lead Zinc Smelter	270,000tpa Zinc, 35000tpa Lead	Udaipur, Rajasthan
Debari Zinc Smelter	76,000tpa Zinc	Udaipur, Rajasthan
Vizag Zinc Smelter	54,000tpa Zinc	Vishakhapatnam, Andhra Pradesh

Source: Company Data

Zero net debt company to turn free cash flow positive from FY07E

Key assumptions

Y/E Mar	FY03	FY04	FY05	FY06E	FY07E	FY08E
Zinc production volumes (TPA)	207,066	261,226	265,924	312,000	360,000	390,000
Lead Production volumes (TPA)	39,314	25,089	15,727	35,000	83,700	83,700
Zinc \$/Tonne	1,100	1,187	1,304	1,708	2,108	2,184
Lead \$/Tonne	631	694	841	1,151	1,105	1,171
Zinc Average Cash Cost \$/Tonne	\$850	\$663	\$571	\$683	\$717	\$717
Other Sales (Rs bn)	2.4	3.2	3.4	4.5	5.3	5.4

Source: Man Financial Research Estimates

Zinc volumes to go up on volume ramp up

We expect HZL's zinc volumes to grow at a CAGR of 12% over the next two years due to the commissioning of its new 170,000-tonne zinc smelter at Chanderiya. The commissioning was complete in September 2005. However, its stabilization and full ramp-up will take another year. The recent expansion includes a 154MW

We expect HZL's zinc volumes to grow at a CAGR of 12% over the next two years due to the commissioning of its new 170,000tonne zinc smelter at Chanderiya

coal-based power plant and an expansion of the mining facility at its Rampura Agucha mine to 3.75mtpa from 2.3mtpa.

HZL has also announced a US\$ 300mn expansion (second phase) to increase its zinc smelting capacities at Chanderiya to 570,000 tonnes from 400,000 tonnes and a new coal-based 77MW power plant. The project is due for commissioning by early CY08. The average cost of setting up a smelter will be about US\$1,850-2,000 per tonne, which is much lower than the cost of US\$ 3,000 per tonne in places like Europe.

HZL is the only primary lead smelter in India

HZL expanded its lead smelting capacity to 85,000 tonnes from 35,000 tonnes at Chanderiya in February 2006. However, its stabilization and full ramp up will take another 6-9 months to complete.

Zinc prices to remain buoyant

We expect zinc prices to remain strong over the next two years due to supply shortages and overall deficit scenario in the zinc markets. Our Man Metals team expects zinc prices to average US\$ 1,923 in CY06 and US\$ 2,000 in CY07. HZL sells zinc entirely in the spot markets at prices, which are linked to the LME with adjustments for premiums and domestic tariffs.

We expect zinc prices to remain strong over the next two years due to supply shortages and overall deficit scenario in the zinc markets

Royalty payments to remain high at 6.6% of LME

HZL has to pay royalty to the Government of Rajasthan on metal in the mined ore at 6.6% for zinc and 5% for lead, based on the LME metal prices. The government of Rajasthan has agreed to defer payment of royalties worth 50% of the ore from the expanded mine till seven years from the date of mining. The royalty will be repayable over a period of three years in quarterly instalments after these seven years are over.

Power costs

Power costs have come down to Rs1.5 per unit from Rs3 per unit after HZL has commissioned its captive 154MW power plant. The reduction in power costs is expected to lead to a savings of Rs 9bn per annum in FY07E alone.

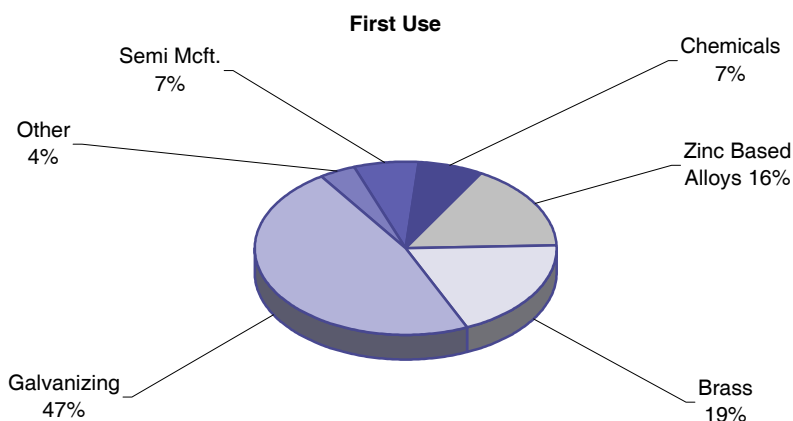
Power costs have come down to Rs1.5 per unit from Rs3 per unit after HZL commissioned its captive power plant

Zinc global markets

Transport and construction sectors are main demand drivers

Zinc is mainly used in galvanizing steel to prevent rusting, and in zinc alloys and copper-based alloys such as brass.

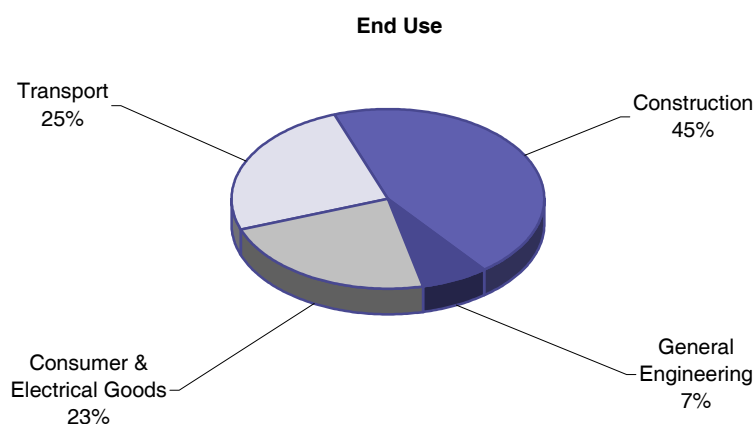
Zinc markets: Steel (galvanizing) and alloys



Steel and alloys account for more than 80% of zinc demand

Source: Company

Zinc end users: Construction and transport to be key drivers

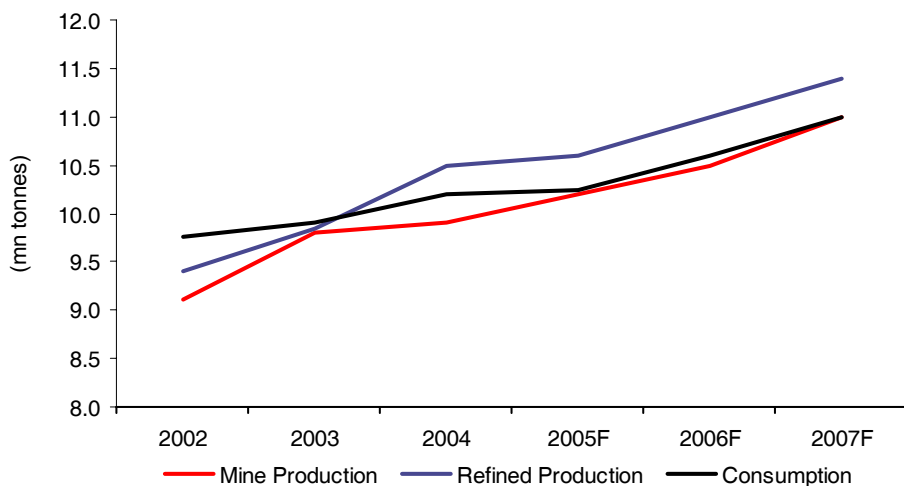


Construction and transport sectors are the main demand drivers for zinc and account for 70% of its total demand

Source: Company

The major end-use segments are construction and transport, which account for 45% and 25% of zinc demand, respectively. This user industry segmentation is not likely to change in the near future.

World zinc production and consumption growth

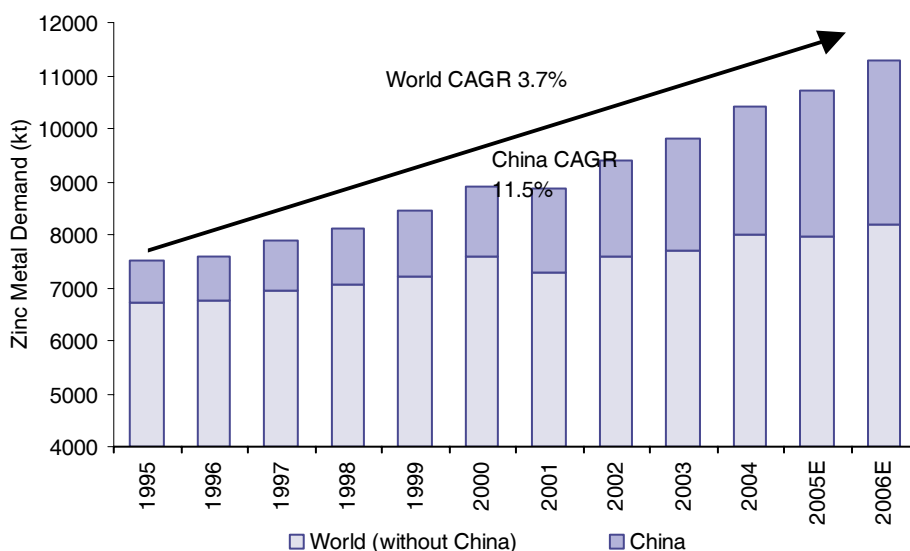


Zinc supply has lagged demand — demand CAGR of 3.7% over last 10 years compared to supply growth of 3.5%

Source: Man Financial Research Estimates

China is the growth engine of demand. Transport, white goods, power infrastructure, road construction, housing and railway to be key demand drivers: China's demand share for zinc in the global market has grown to a dominant 23% in CY04 from just 8% in CY90. Chinese demand for zinc grew by 13% in CY05 and is expected to grow further by 11% in CY06 as against the secular global demand growth expectation of 3%.

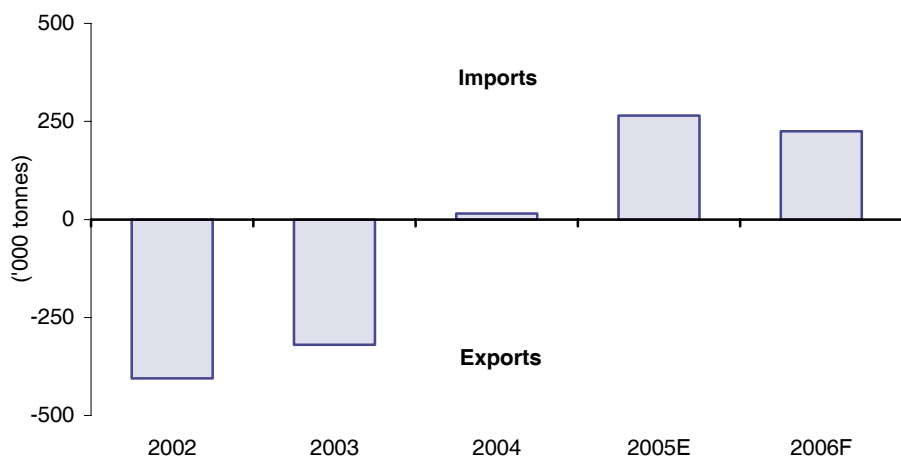
China: Key driver for zinc demand



Chinese demand for zinc to grow at 11% in 2006

Source: Company, Man Financial Research Estimates

From CY04, China has become an importer of refined zinc



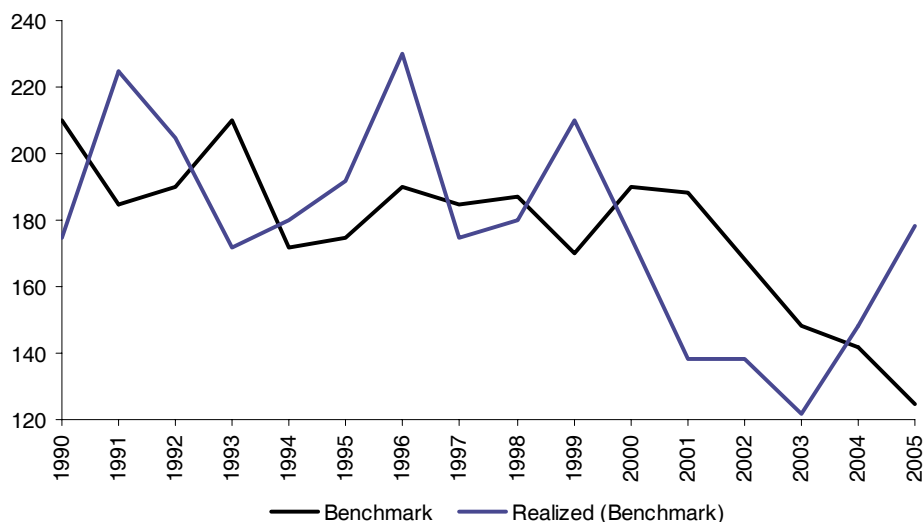
China is expected to import more than 200,000 tonnes of zinc in CY06E

Source: Man Financial Research Estimates

Recent smelter closures due to falling concentrate availability and falling TC/RC margins have increased the deficit in the global zinc markets. This is likely to widen further

This situation is expected to deteriorate further in 2006. Almost 470,000 tonnes of smelting capacity has shutdown in the last one-year alone.

Zinc treatment charges (TC) – falling TCs force smelter closures



TC RC margins have fallen significantly over the last 15 years forcing smelter closures

Source: Man Financial Research

Major closures

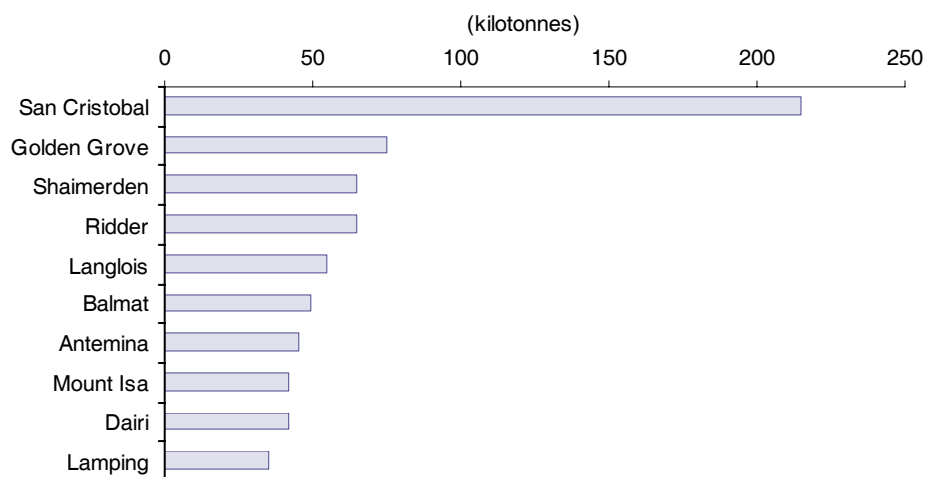
Major zinc smelter capacity closures in 2005 and 2006 ('000 tpa)

	Plant	Company	From	Lost capacity
Peru	La Oroya	Doe Run	Q105	25
USA	Salton Sea	MidAmerican	Q105	10
Italy	Portovesme ISF	Glencore	Q105	70
Spain	Cartegena	Espanola del Zinc	Q205	47
Germany	Sudamin MHD	Sudamin	Q305	95
France	Auby	Umicore	Q405	130
USA	Sauget	Big River Zinc	Q106	95
Total				472

Source: Metal Bulletin

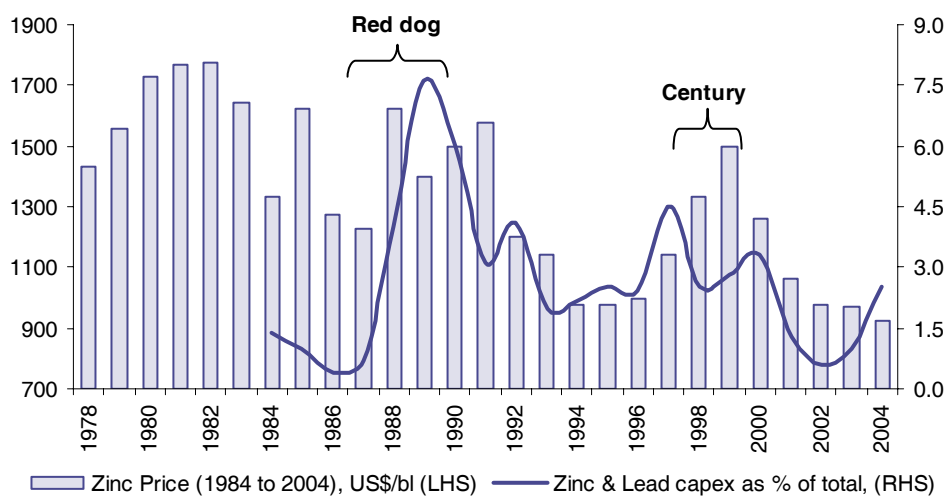
Almost 470,000 tonnes of smelting capacity has shutdown in the last one-year alone

10 biggest additions to world zinc mine supply through CY08 not enough to prevent a price increase



Source: Man Financial Research

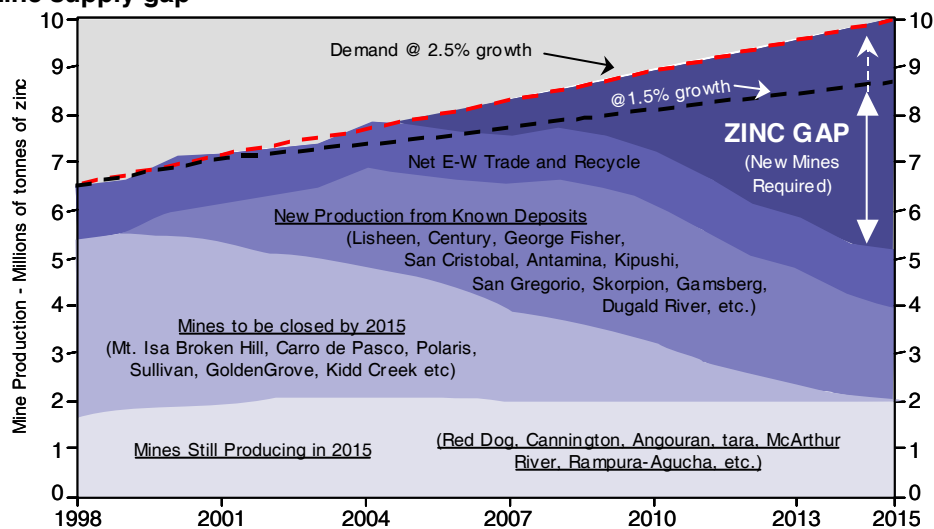
Zinc: Years of under-investment is reflecting on prices



Source: Company Reports

Investment in zinc mining assets have fallen significantly from a high of 7.5% of total investment in base metals in CY89 to under 1% in CY02, which has had its impact on prices which have crossed US\$2,300 recently

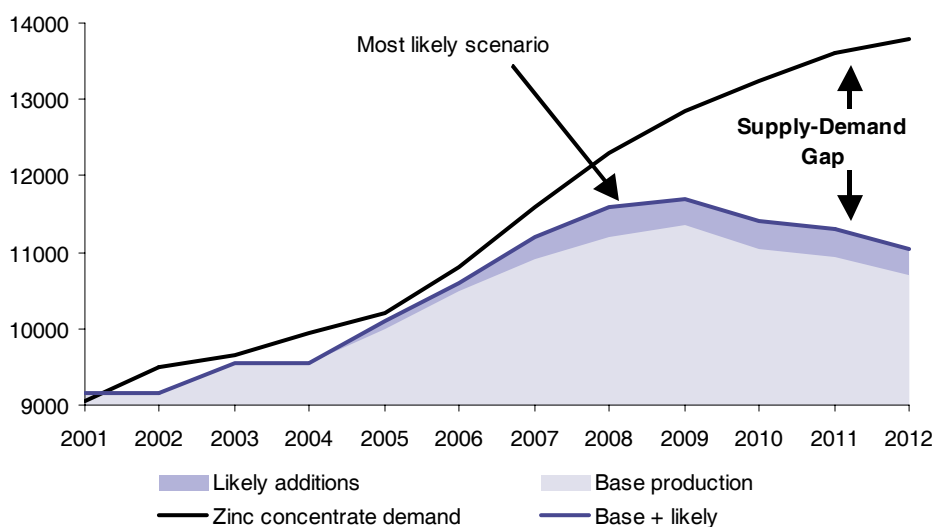
Zinc supply gap



Source: Teck Cominco

Zinc supply gap is expected to widen by CY15 unless major discoveries are made

Supply / Demand gap to widen



Source: Company reports

With zinc in short supply, the supply demand gap is expected to begin widening after 2008

Zinc: Quarterly demand-supply outlook

Stocks to decline to 5.5 weeks in Q4CY06 from 6.8 weeks in Q2CY05

- Consumption growth expected to expand
- Moderate production growth seen
- East-West trade to improve
- Stocks near equilibrium and deficit market

('000 tons)	CY05Q2	CY05Q3	CY05Q4	CY06Q1	CY06Q2	CY06Q3	CY06Q4
Consumption	1,831	1,867	1,902	1,854	1,896	1,947	1,979
	-4.30%	-0.90%	2.20%	2.70%	3.60%	4.30%	4.00%
Production	1,676	1,686	1,696	1,701	1,735	1,745	1,755
	3%	2%	5%	4%	4%	3%	3%
E/W Trade	90	85	80	75	70	65	60
Supply	1,819	1,842	1,832	1,850	1,861	1,885	1,874
Reported Bal	68	-10	-90	4	11	-33	-115
Stocks	961	1,005	915	919	930	897	782
Weeks Use	6.8	7.1	6.4	6.5	6.5	6.3	5.5

Over the next few quarters, consumption is expected to grow at 3.5-4.0% while production growth is expected to be lower at 3.0%, resulting in deficit

Source: Man Financial Research

Lead: Quarterly supply-demand outlook

As lead is a very polluting industry, no new capacity addition expected in the foreseeable future, and consumption will balance supply.

('000 tons)	CY05Q2	CY05Q3	CY05Q4	CY06Q1	CY06Q2	CY06Q3	CY06Q4
Consumption	1,359	1,319	1,408	1,396	1,401	1,367	1,465
	3.1%	1.6%	2.5%	2.7%	3.1%	3.6%	4.0%
Mine	502	511	514	516	517	526	529
Refined	1,200	1,170	1,225	1,252	1,241	1,209	1,263
E-W Trade	96	96	101	96	96	101	101
Supply	1,311	1,281	1,340	1,362	1,351	1,324	1,379
	-0.5%	-2.3%	4.6%	1.6%	-0.8%	-2.0%	4.1%
Balance	28	1	-17	16	1	8	-36
Stocks	322	330	313	329	329	337	301
Weeks Use	3.2	3.3	3.1	3.3	3.3	3.4	3.0

Lead markets are expected to remain balanced over the next few quarters

Source: Man Financial Research

Zinc: Mine production

Thousand tonnes (Zinc content)	Annual Totals				Jan-May	
	2002	2003	2004	2005	2005	2006
Europe	910	1,019	1,021	1,053	438	460
Africa	242	259	357	430	175	161
America	3,759	3,795	3,608	3,458	1,447	1,408
Asia	2,549	3,058	3,508	3,749	1,425	1,668
Oceania	1,444	1,447	1,298	1,329	542	561
World Total	10,906	11,581	11,796	12,024	6,032	6,264
<i>of which</i>						
Western World	6,469	6,705	6,546	6,615	2,742	2,754

Source: ILZSG

Zinc: Metal production

Thousand tonnes	Annual Totals				Jan-May	
	2002	2003	2004	2005	2005	2006
Europe	2,904	2,744	2,721	2,592	1,104	1,025
Africa	147	194	257	273	103	127
America	1,903	1,930	1,993	1,874	802	766
Asia	4,189	4,450	4,912	5,065	2,073	2,257
Oceania	567	553	474	457	186	175
World Total	11,712	11,874	12,361	12,266	6,273	6,356
<i>of which</i>						
Western World	6,668	6,643	6,668	6,497	2,750	2,696

Source: ILZSG

Zinc: Metal consumption

Thousand tonnes	Annual Totals				Jan-May	
	2002	2003	2004	2005	2005	2006
Europe	2,754	2,797	2,830	2,678	1,112	1,094
Africa	187	174	193	202	84	85
America	2,023	1,950	2,123	1,902	807	849
Asia	4,147	4,660	5,247	5,601	2,248	2,343
Oceania	266	267	263	253	115	99
World Total	11,379	11,851	12,660	12,641	6,371	6,476
<i>of which</i>						
Western World	7,117	7,116	7,422	7,061	2,992	2,973
Gap	333	23	-299	-375	-98	-120

Source: ILZSG

Zinc domestic markets

Player wise capacity and production

(000 tons)	Capacity		Production	
	2003-04	2004-05	2003-04	2004-05
Hindustan zinc	169	169	261.23	265.62
Binani Zinc	30	30	29.218	26.348

Source: Prowess

(Tons)	2004-05	2005-06 E	2006-07 E
Domestic demand	400000	440000	484,000
Domestic supply	291968	335818.5	434,800

Source: Prowess

Major user segments

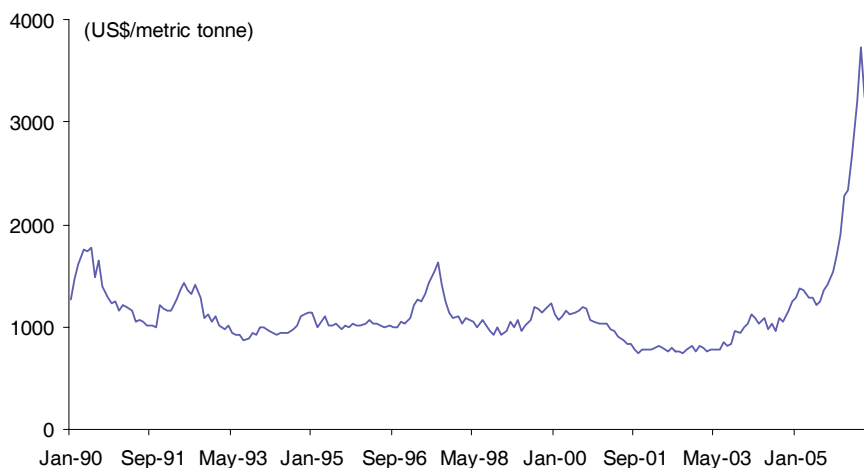
- Automobiles
- Consumer durables
- Batteries
- Domestic appliances
- Construction

Zinc concentrate production

	(Tonne)
2003-04	590,276
2004-05	666,972

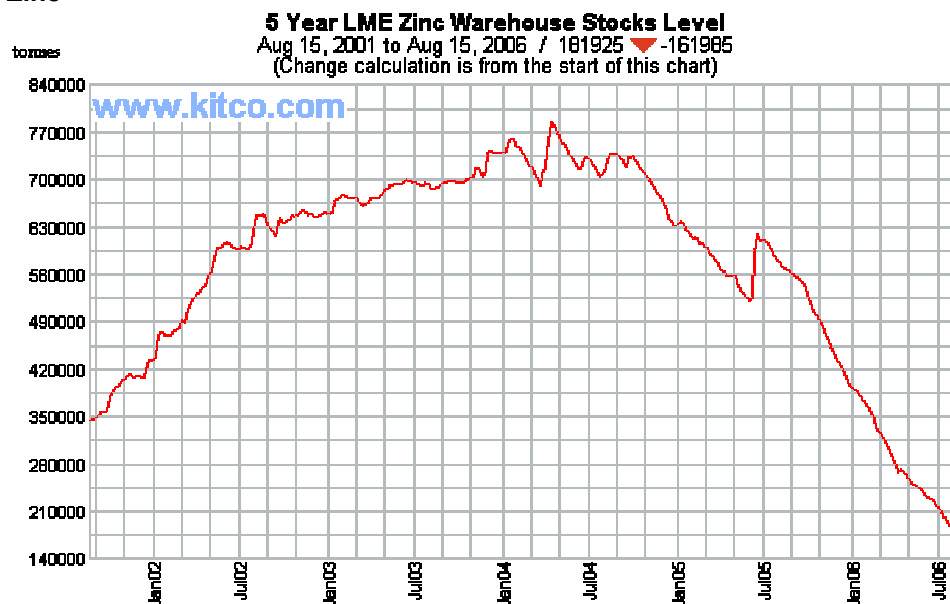
Source: Indian Bureau of Mines

Zinc



Source: Bloomberg

Zinc



Source: www.kitco.com

Lead



Source: Bloomberg

Zinc business – Key Assumptions

Income Statement

Y/E Mar, Rs mn	FY03	FY04	FY05	FY06E	FY07E	FY08E
Net sales	14,690	18,441	21,897	38,730	55,313	58,520
<i>Growth</i>		25.5%	18.7%	76.9%	42.8%	5.8%
Other income	774	944	1,504	1,310	1,500	1,500
Total income	15,465	19,385	23,401	40,040	56,813	60,020
Operating expenses	12,461	12,824	13,304	15,870	17,160	18,212
EBITDA	2,230	5,617	8,593	22,860	38,153	40,308
<i>Growth</i>		151.9%	53.0%	166.0%	66.9%	5.6%
<i>Margin</i>	15.2%	30.5%	39.2%	59.0%	69.0%	68.9%
Depreciation	708	718	864	1,410	1,851	2,143
EBIT	3,004	4,900	7,729	21,450	36,302	38,165
<i>Growth</i>		63.1%	57.8%	177.5%	69.2%	5.1%
<i>Margin</i>		26.6%	35.3%	55.4%	65.6%	65.2%
Interest paid	3	8	18	470	343	343
Pre-tax profit	2,294	5,836	9,215	22,290	37,460	39,323
Tax provided	872	1,801	2,716	7,570	12,586	13,212
Profit after tax	1,422	4,035	6,500	14,720	24,873	26,110
MAN Net profit	1,422	4,035	6,500	14,720	24,873	26,110
<i>Growth</i>		183.8%	61.1%	126.5%	69.0%	5.0%
Extraordinary items: Gains/(Losses)		-1,174				
Unadj. Shares (m)	423	423	423	423	423	423
Wtd avg shares (m)	423	423	423	423	423	423

Cash Flow

Y/E Mar, Rs mn	FY03	FY04	FY05	FY06E	FY07E	FY08E
Pre-tax profit	2,294	5,836	9,215	22,290	37,460	39,323
Depreciation	708	718	864	1,410	1,851	2,143
Chg in working capital	1,418	(1,394)	328	(1,692)	(4,537)	(518)
Total tax paid	-	2,255	2,275	6,240	12,586	13,212
Other operating activities	233	1,638	(351)	470	343	343
Cash flow from operating activities (a)	4,652	4,542	7,781	16,238	22,529	28,078
Capital expenditure	(631)	(3,017)	(10,437)	(5,500)	(8,576)	(6,500)
Chg in investments	-	(6,193)	(686)	(6,121)	(5,750)	(10,750)
Chg in marketable securities	-	-	-	-	-	-
Other investing activities	254	455	575	1,310	1,500	1,500
Cash flow from investing activities (b)	(378)	(8,755)	(10,548)	(10,311)	(12,826)	(15,750)
Free cash flow (a+b)	4,274	(4,213)	(2,767)	5,927	9,703	12,328
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)		6,071	(365)			
Dividend (incl. tax)	213	381	668	1,907	2,860	3,813
Other financing activities	-	-	-	-	-	-
Cash flow from financing activities (c)	(213)	5,690	(1,033)	(1,907)	(2,860)	(3,813)
Net chg in cash (a+b+c)	4,061	1,477	(3,800)	4,020	6,843	8,514

Source: Company, Man Financial Research Estimates

Balance Sheet

As at 31st Mar, Rs mn	FY03	FY04	FY05	FY06E	FY07E	FY08E
Cash & bank	2,569	4,046	221	3,771	10,272	18,444
Marketable securities at cost	-	6,193	6,879	13,000	18,750	29,500
Debtors	623	2,729	2,609	3,714	6,062	5,612
Inventory	3,062	3,226	3,343	3,696	4,466	4,740
Loans & advances	1,112	1,159	1,196	1,250	1,400	1,520
Total current assets	7,366	17,353	14,248	25,431	40,950	59,816
Gross fixed assets	15,400	15,998	23,988	33,551	41,127	47,627
Less: Depreciation	8,930	9,597	10,109	11,519	13,370	15,513
Add: Capital WIP	131	2,518	4,563	500	1,500	1,500
Net fixed assets	6,601	8,919	18,441	22,531	29,257	33,613
Total assets	13,967	26,272	32,689	47,962	70,207	93,429
Current liabilities	2,451	3,465	4,274	4,094	3,751	3,176
Provisions	543	1,004	843	2,154	2,728	4,228
Total current liabilities	2,993	4,469	5,117	6,248	6,478	7,404
Non-current liabilities	(724)	6,734	6,794	8,124	8,124	8,124
Total liabilities	2,270	11,203	11,912	14,372	14,603	15,528
Paid-up capital	4,225	4,225	4,225	4,225	4,225	4,225
Reserves & surplus	7,472	10,843	16,552	29,365	51,379	73,676
Shareholders' equity	11,697	15,069	20,777	33,591	55,604	77,901
Total equity & liabilities	13,967	26,272	32,689	47,963	70,207	93,429

Per-share data

	FY203	FY04	FY05	FY06E	FY07E	FY08E
MAN EPS (INR)	3.4	9.5	15.4	34.8	58.9	61.8
Growth		183.8%	61.1%	126.5%	69.0%	5.0%
Book NAV/share (INR)	27.7	35.7	49.2	79.5	131.6	184.4
FDEPS (INR)	3.4	9.5	15.4	34.8	58.9	61.8
CEPS (INR)	5.0	11.2	17.4	38.2	63.2	66.9
CFPS (INR)	5.3	-10.0	-6.5	14.0	23.0	29.2
DPS (INR)	0.8	1.4	1.75	4.0	6.0	8.0

Financial stability ratios

	FY03	FY04	FY05	FY06E	FY07E
Total debt/Equity (%)	0.00	0.40	0.27	0.17	0.10
Net debt/Equity (%)	0	0	0	0	0

Source: Company, Man Financial Research Estimates

Key Ratios

	FY03	FY04	FY05	FY06E	FY07E	FY08E
Return on assets (%)	11.3%	23.2%	26.4%	43.4%	47.6%	35.2%
Return on equity (%)	12.2%	26.8%	31.3%	43.8%	44.7%	33.5%
Return on Invested capital (%)	6.2%	10.3%	12.6%	32.1%	37.2%	29.3%
RoIC/Cost of capital (x)	0.9	1.5	1.8	4.6	5.3	4.2
RoIC - Cost of capital (%)	-7.8%	0.3%	1.6%	20.2%	24.5%	16.2%
Return on capital employed (%)	10.9%	18.5%	23.6%	36.4%	39.6%	30.7%
Cost of capital (%)	14.0%	10.0%	11.0%	12.0%	12.7%	13.0%
RoCE - Cost of capital (%)	-3.1%	8.6%	12.7%	24.4%	26.9%	17.7%
Asset turnover (x)	0.8	0.6	0.6	0.9	0.6	0.6
Sales/Total assets (x)	1.0	1.1	0.8	0.8	0.9	0.9
Sales/Net FA (x)	2.2	2.1	1.2	1.7	1.9	1.7
Working capital/Sales (x)	0.3	0.4	0.1	0.2	0.3	0.4
Fixed capital/Sales (x)	0.9	0.8	1.1	1.2	1.0	1.1
Receivable days	15	54	43	35	40	35
Inventory days	90	92	92	85	95	95
Payable days	33	39	40	40	35	40
Current ratio (x)	2.4	2.5	2.5	1.4	2.0	3.4
Quick ratio (x)	1.7	1.9	1.6	0.7	1.2	2.3
Interest cover (x)	10.8	1001.4	653.3	429.4	45.6	106.0
Dividend cover (x)	3.2	3.7	6.0	7.8	7.7	8.7
PER (x)	161	57	35	16	9	9
PEG (x) - y-o-y growth	1.4	0.6	0.3	0.2	1.8	1.0
Price/Book (x)	19.51	15.14	10.98	6.79	4.10	2.93
Yield (%)	0.1%	0.3%	0.3%	0.7%	1.1%	1.5%
EV/Net sales (x)	15.35	12.01	10.15	5.59	3.68	3.15
EV/EBITDA (x)	101.1	39.4	25.9	9.5	5.3	4.6
EV/EBIT (x)	75.1	45.2	28.7	10.1	5.6	4.8
EV/NOPLAT (x)	221.1	102.1	61.9	17.3	9.2	8.0
EV/CE	20.5	14.2	10.7	7.5	4.5	3.3
EV/IC (x)	13.9	13.7	10.5	7.8	5.5	3.4

Source: Company, Man Financial Research Estimates

Base metals - price outlook

	Copper	Alum	Zinc	Lead	Nickel	Tin
2005Q1	\$3,268	\$1,900	\$1,317	\$979	\$15,348	\$8,086
2005Q2	\$3,389	\$1,790	\$1,273	\$987	\$16,411	\$7,963
2005Q3	\$3,757	\$1,829	\$1,297	\$892	\$14,567	\$7,047
2005Q4	\$4,303	\$2,074	\$1,638	\$1,048	\$12,669	\$6,440
2005Avg	\$3,679	\$1,898	\$1,381	\$976	\$14,749	\$7,384
2006Q1	\$4,800	\$2,349	\$2,068	\$1,206	\$14,691	\$7,523
2006Q2	\$5,000	\$2,400	\$2,100	\$1,200	\$14,000	\$7,000
2006Q3	\$4,200	\$2,100	\$1,800	\$1,100	\$12,000	\$6,500
2006Q4	\$4,500	\$2,300	\$1,950	\$1,000	\$11,000	\$6,000
2006Avg	\$4,625	\$2,287	\$1,980	\$1,127	\$12,923	\$6,756
2007Avg	\$4,500	\$2,400	\$2,000	\$900	\$10,000	\$5,500

Source: Man Metals

FINANCIALS

Income Statement

Y/E Mar, Rs mn	FY03	FY04	FY05	FY06E	FY07E	FY08E
Net sales	46,782	57,370	75,423	134,254	214,131	244,937
<i>Growth</i>		22.6%	31.5%	78.0%	59.5%	14.4%
Other income	1,512	6,087	2,922	2,760	3,119	3,101
Total income	48,294	63,456	78,345	137,015	217,251	248,038
Operating expenses	40,899	57,655	64,091	102,488	156,808	183,990
EBITDA	7,394	5,801	14,254	34,527	60,443	64,048
<i>Growth</i>		-21.5%	145.7%	142.2%	75.1%	6.0%
<i>Margin</i>	15.8%	10.1%	18.9%	25.7%	28.2%	26.1%
Depreciation	1,125	1,176	1,245	1,902	3,762	3,234
EBIT	6,270	4,625	13,009	32,624	56,680	60,815
<i>Growth</i>		-26.2%	181.3%	150.8%	73.7%	7.3%
<i>Margin</i>	13.4%	8.1%	17.2%	24.3%	26.5%	24.8%
Interest paid	1,682	1,324	1,131	1,824	3,404	2,328
Pre-tax profit	6,099	9,388	14,801	33,561	56,396	61,588
Tax provided	1,462	1,841	3,137	10,260	16,603	17,978
Profit after tax	4,638	7,547	11,664	23,301	39,793	43,610
MAN Net profit	4,638	7,547	11,664	23,301	39,793	43,610
<i>Growth</i>		63%	55%	100%	71%	10%
Unadj. shares (m)	55.9	55.9	55.9	55.9	55.9	55.9
Wtd avg shares (m)	55.9	55.9	55.9	55.9	55.9	55.9

Balance Sheet

As at 31st Mar, Rs mn	FY03	FY04	FY05	FY06E	FY07E	FY08E
Cash & bank	6,869	10,340	8,342	9,520	21,572	23,588
Debtors	2,630	6,062	7,203	11,557	14,399	15,424
Inventory	7,812	8,586	10,356	13,811	20,572	21,958
Loans & advances	6,644	7,135	9,045	7,938	8,554	9,153
Total current assets	23,954	32,122	34,946	42,825	65,097	70,124
Investments	229	10,986	18,491	39,195	45,124	62,528
Gross fixed assets	62,060	66,829	81,542	109,901	125,227	136,157
Less: Depreciation	24,775	28,889	31,776	33,678	37,441	40,674
Add: Capital WIP	3,105	14,819	28,353	500	1,500	1,500
Net fixed assets	40,391	52,759	78,119	76,723	89,286	96,982
Non-current assets	2,532	315	209	208	218	228
Total assets	67,107	96,182	131,764	158,951	199,726	229,862
Current liabilities	12,441	13,154	13,375	17,319	22,521	24,785
Provisions	2,436	5,201	5,143	5,294	5,891	7,679
Total current liabilities	14,877	18,354	18,517	22,613	28,412	32,464
Non-current liabilities	5,380	4,618	5,098	6,658	6,858	7,058
Minority Interest	9,509	8,752	11,379	17,554	26,284	35,449
Total Debt	24,215	47,403	53,310	54,608	54,108	42,108
Total liabilities	53,981	79,127	88,304	101,433	115,662	117,079
Paid-up capital	180	578	768	1,118	1,118	1,118
Reserves & surplus	12,946	16,477	42,693	56,400	82,945	111,665
Shareholders' equity	13,126	17,055	43,461	57,518	84,063	112,783
Total equity & liabilities	67,107	96,182	131,764	158,950	199,725	229,862

Per-share data

	FY03	FY04	FY05	FY06E	FY07E	FY08E
MAN EPS (INR)	7.7	12.9	15.7	30.6	55.6	61.6
<i>Growth</i>	279%	67%	21%	96%	81%	11%
Book NAV/share (INR)	23.5	30.5	77.7	102.9	150.4	201.8
FDEPS (INR)	23.5	30.5	77.7	102.9	150.4	201.8
CEPS (INR)	10.3	15.6	23.1	45.1	77.9	83.8

Profitability, Productivity, Liquidity and Valuation Ratios

	FY03	FY04	FY05	FY06E	FY07E	FY08E
Return on assets (%)	13%	13%	13%	20%	27%	25%
Return on equity (%)	33%	42%	20%	30%	37%	31%
Return on Invested capital (%)	8%	4%	10%	21%	32%	30%
RoIC/Cost of capital (x)	1.1	0.6	1.4	3.1	4.5	4.2
RoIC - Cost of capital (%)	0.8	-3.0	2.8	14.5	24.8	22.6
Return on capital employed (%)	16.9	13.8	13.2	22.4	31.3	29.7
RoCE - Cost of capital (%)	0.8	-3.0	2.8	14.5	24.8	22.6
Asset turnover (x)	0.91	0.98	1.14	0.65	0.49	0.45
Sales/Total assets (x)	0.9	0.7	0.7	1.0	1.2	1.2
Sales/Net FA (x)	1.1	1.2	1.1	1.0	1.7	2.4
Working capital/Sales (x)	0.2	0.2	0.2	0.2	0.2	0.2
Fixed capital/Sales (x)	1.0	0.8	1.1	1.3	0.8	0.6
Receivable days	19.4	20.5	38.6	34.9	31.4	24.5
Inventory days	54.1	72.4	60.8	61.8	50.5	48.9
Current ratio (x)	2.1	1.6	1.8	1.9	1.9	2.3
Quick ratio (x)	1.3	1.0	1.0	1.0	1.0	1.5
Interest cover (x)						
Dividend cover (x)						
PER (x)	51.1	30.6	25.2	12.9	7.1	6.4
PEG (x) - y-o-y growth	1.2	0.6	0.3	0.3	0.4	-0.1
Price/Book (x)	16.8	12.9	5.1	3.8	2.6	2.0
Yield (%)						
EV/Net sales (x)	5.1	4.3	3.3	1.7	1.0	0.7
EV/EBITDA (x)	32.2	42.6	17.3	6.6	3.4	2.8
EV/EBIT (x)	30.6	23.0	15.5	6.4	3.5	2.8
EV/NOPLAT (x)	69.0	106.9	31.4	11.0	5.9	4.6
EV/CE	7.8	6.6	4.9	2.5	1.4	1.0
EV/IC (x)	5.4	4.3	3.1	2.4	1.9	1.4

Source: Company, Man Financial Research Estimates

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