

## India Update

### Market data as on June 21, 2007

INDICES		
		% chg (DoD)
BSE Sensex	14499	0.61
S&P CNX Nifty	4267	0.44
BSE 100	7491	0.65
BSE 200	1775	0.64
Instanex Skindia DR	2662	(0.96)
Mindex	5850	0.18

OVERSEAS MARKETS		
		% chg (DoD)
Dow Jones	13546	0.42
Nasdaq Comp.	2617	0.65
S&P 500	1522	0.62
Hang Seng	22019	0.29
Nikkei	18131	(0.60)

ADVANCES/DECLINES (BSE)			
Group	A	B1	B2
Advances	113	399	529
Declines	89	318	421
Unchanged	3	18	34

FII TURNOVER (BSE+NSE)* (Rs mn)		
Bought	Sold	Net
24,631	18,100	6,531

NEW HIGHS AND LOWS (BSE)			
Group	A	B1	B2
Highs	23	31	27
Low	0	14	6

**CURRENCY**  
US\$1 = Rs40.72

\* FII turnover (BSE + NSE) as on  
June 20, 2007

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## Highlights

Sector/event	Impact
<b>METALS: Sterlite Industries –</b> Company update	Sterlite Industries recently announced the successful completion of its initial public offering of 130.44mn shares, with book runners granted an option to purchase additional 19.56mn shares to cover over-allotment, the subscription of which, we believe would have been on account of huge demand. The new shares have been issued at US\$13.44 per ADS (equivalent to one local share) at ~Rs544/sh, amounting to US\$2.016bn (Rs81.84bn). The fresh issue would constitute ~21.15% of the post issue capital of Rs1.41bn (709mn shares).

## News Snippets

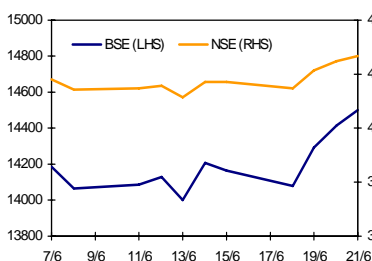
### Sectoral

- The Cabinet Committee on Economic Affairs has approved a proposal by the Agriculture Ministry to increase the buffer stock of sugar to 5mnte for this year from the current 2mnte, in the wake of expectations of a bumper production this year. (The Economic Times)

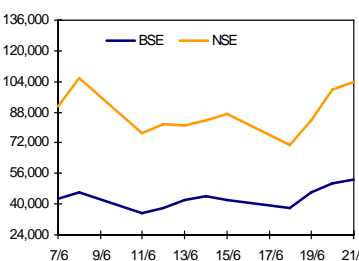
### Corporate

- Gail India (GAIL) has formed a joint venture with Indian Oil Corporation (IOC) for gas distribution in Kolkata and other towns. The new company would be incorporated shortly, with an estimated investment of ~Rs5bn and GAIL and IOC holding 22.5% each. Other equity partners are the Government of West Bengal (5%) and financial institutions (50%). Gas distribution will be possible only after completion of the Jagdishpur-Haldia pipeline in '11. In the meantime, GAIL would make efforts to source coal bed methane from the Asansol region, following which it would be distributed in cylinders after compression. (The Economic Times)
- Glenmark Pharmaceuticals has received tentative approval from the USFDA for its ANDA for *Terbinafine HCL 250mg* oral tablets, which is the AB-rated generic equivalent of Novartis's anti-fungal *Lamisil®* tablets, with annual sales of >US\$650mn (IMS-December '06) in the US. (Business Standard)
- Dr Reddy's Laboratories is developing eight generic medicines using biotechnology and plans to annually release one for sale, challenging companies such as Roche Holding NV and Amgen Inc. (Business Standard)

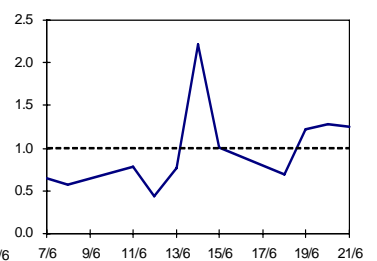
Market movement over last fortnight



Volumes in Rs mn (BSE and NSE)



Advances & Declines ratio (BSE)



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## Sterlite Industries (Unrated)

## METALS

## Scheduled for further success

Rs598

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## Shareholding pattern

	Mar-07
Promoters	79.3
Institutional investors	11.8
MFs and UTI	1.4
Insurance Cos.	3.0
FIs	7.4
Others	8.9

Source: NSE

Sterlite Industries recently announced the successful completion of its initial public offering of 130.44mn shares, with book runners granted an option to purchase additional 19.56mn shares to cover over-allotment, the subscription of which, we believe would have been on account of huge demand. The new shares have been issued at US\$13.44 per ADS (equivalent to one local share) at ~Rs544/sh, amounting to US\$2.016bn (Rs81.84bn). The fresh issue would constitute ~21.15% of the post issue capital of Rs1.41bn (709mn shares).

Table 1: Valuation summary

		Y/E March	EPS* (Rs)	P/E (x)		
Price (21/06/07) (Rs)	598	2005	11.2	53.6	BSE Sensex	14499
52 wk Range (Rs)	616/331	2006	29.2	20.5	M.Cap (Rs bn)	424
DPS (Rs)	4.0	2007E	63.8	9.4	M.Cap (US\$ bn)	10.3
Dividend yield (%)	0.7	2008E	75.6	7.9	Shares Out (mn)	709
Face value (Rs)	2.0	2009E	120.0	5.0	Float (%)	41

\* Fully diluted basis

Source: Company data

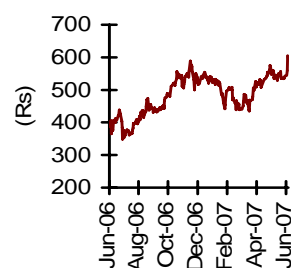
**Objects of the issue.** Sterlite's main objects of the issue are:

- **Hindustan Zinc (HZL) minority-stake acquisition.** Sterlite intends to exercise its call option on the Government's 29.5% minority stake, exercisable since April 11, '07 and till the Government sells it through a public offer. Once the call option is exercised, the share price would be the fair market value as determined by an independent appraiser. While determining the price, the appraiser may take into account the CMP of Rs750 (yesterday's closing price), valuing the total Government stake at Rs93.6bn.
- **Setting up a 2,400MW power plant.** Sterlite, through its wholly-owned subsidiary, Sterlite Energy, intends to setup a 2,400MW thermal power plant in Orissa at Rs76bn over the next three years, with total project cost of Rs81.8bn over four years. ~70% of the project would be funded through debt, with the rest through equity; only a part of the proceeds from the issue would be utilised towards the project.
- **Debt reduction** of Rs6.47bn.
- **Future acquisitions.** Sterlite may use part of the proceeds to acquire businesses, as and when opportunities arise.

**Way forward.** Going forward, future earnings growth would depend on successful acquisition of minority interests in Bharat Aluminium Company (BALCO) and HZL, where Sterlite holds stake of 51% and 65.5% respectively, at present. Both businesses are on a high-growth trajectory due to the recent and planned capacity expansions. Further, the Vedanta Alumina and Sterlite Energy projects would create significant value going forward.

- **Hindustan Zinc.** HZL is among the world's largest zinc miner and smelter and also among the top decile of the global cost curve. Zinc production would expand from 480,000te in FY07 to ~650,000te in FY09. HZL's net cash would increase significantly from ~Rs48.5bn by end-FY07 to ~Rs142.4bn by end-FY09. We expect HZL to register a PAT of Rs53.17bn in FY08 (EPS of Rs125.8) and Rs67.6bn (EPS of Rs160) in FY09.

## Price chart



- **Bharat Aluminium Company.** BALCO has successfully ramped up its aluminium smelting capacity from 100,000e to 350,000te in FY07, resulting in a sharp jump in EBITDA from Rs4.07bn in FY06 to Rs16.83bn in FY07. At present, Sterlite owns 51% stake in BALCO, which would increase to 100% once a resolution is reached between the Government and Sterlite.
- **Vedanta Alumina (VAL).** Sterlite has 29.5% stake in VAL, with the balance held by Vedanta Resources (parent company of Sterlite). VAL has a 1-1.4mnte alumina refinery, which has recently commenced production. Further, VAL is currently setting up a 0.5mnte aluminium smelter, which would be set-up in two stages and be fully operational by FY10.
- **Sterlite Energy.** Sterlite, through its wholly-owned subsidiary, Sterlite Energy is setting up a 2,400MW power plant in Orissa at Rs81.9bn, expected to be completed by FY10. Sterlite has, over time, developed significant experience in this business and currently generates ~1,000MW power from its various plants.
- **Valuation**
  - We expect Sterlite to report a consolidated EPS (after dilution) of Rs75.6 (+19% YoY) in FY08 and Rs120 (+59% YoY) in FY09. At present, Sterlite is trading at PE and EV/EBITDA of 7.9x and 3.2x its FY08 earnings and PE and EV/EBITDA of 5x and 2.1x its FY09 earnings. Besides, its existing businesses – stake in VAL and Sterlite Energy – would be valued at Rs115/sh.
  - Based on comparisons with Sterlite's local and international peers, we believe that Sterlite is considerably undervalued and should trade at an EV/EBITDA of 5x its FY09 earnings. We have a positive view on the company.
- **Key Risks**
  - Our assumptions for future earnings are based on successful ramp-up of capacities in HZL, VAL and Sterlite Energy, although the management has demonstrated excellent execution capabilities in the past any significant delays would remain a key risk going forward.
  - Acquisition of minority interests is dependant on Government initiatives and policies that have already led to delay in acquisition of minority interest in BALCO; delay in acquisitions would remain a risk to our estimates.
  - Base metal price movements have a direct bearing on revenues and earnings and any sharp downward movement remains a risk. Our current assumptions factor an average price of US\$2,800/te for aluminium, US\$3,300/te for zinc and a copper Tc/Rc margin of 16c/lb for FY08 and FY09.

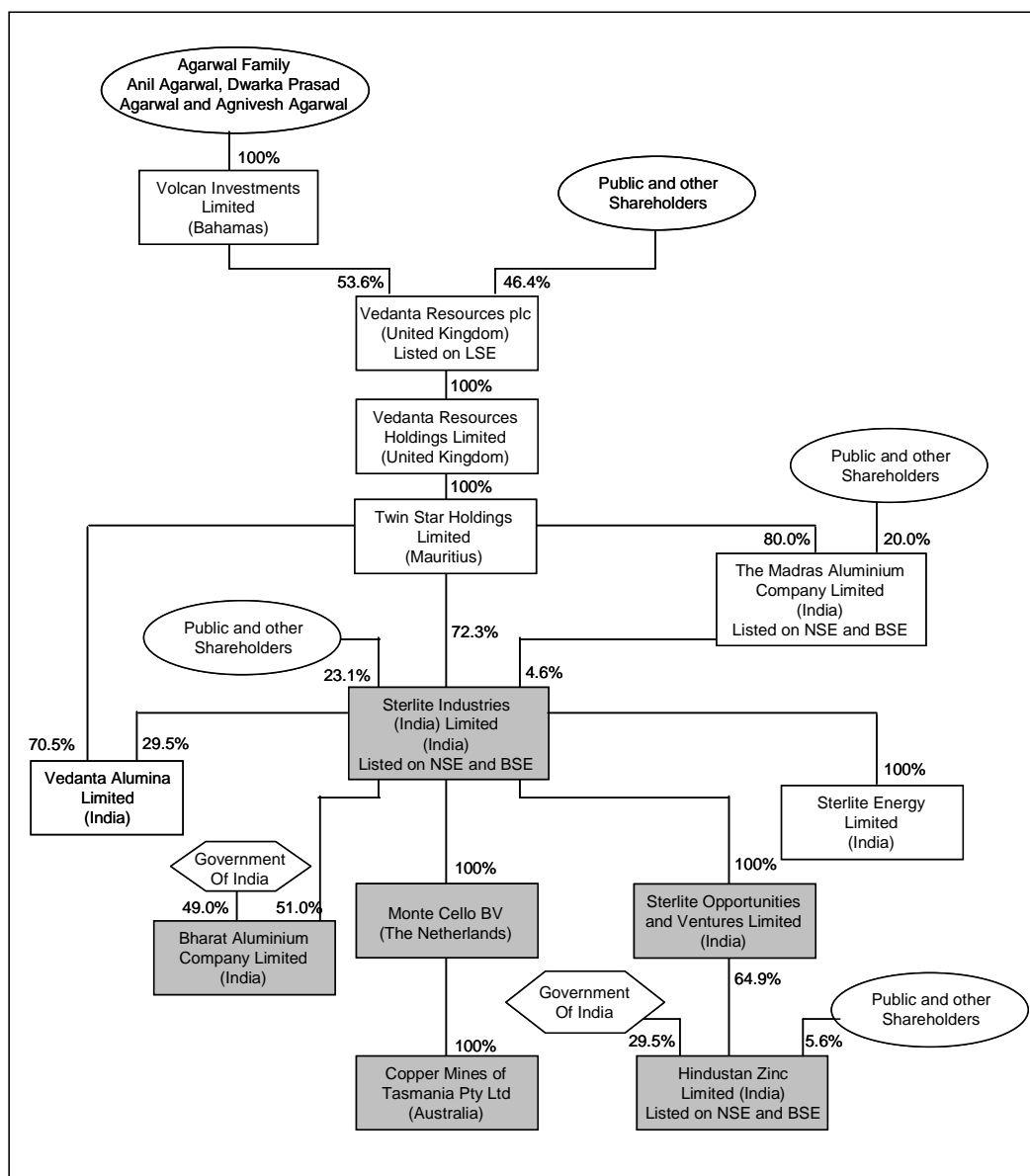
**Table 2: Financial forecast**

(Rs bn, year ending March 31)

	FY06	FY07	% chg (YoY)	FY08E	% chg (YoY)	FY09E	% chg (YoY)
<b>Net Sales</b>	<b>131</b>	<b>252</b>	<b>92.1</b>	<b>278</b>	<b>10.4</b>	<b>303</b>	<b>9.0</b>
<b>Total Expenses</b>	<b>94</b>	<b>159</b>	<b>68.9</b>	<b>178</b>	<b>11.9</b>	<b>182</b>	<b>2.2</b>
<b>EBITDA</b>	<b>37</b>	<b>92</b>	<b>151.9</b>	<b>100</b>	<b>7.9</b>	<b>121</b>	<b>21.1</b>
<i>EBITDA Margins %</i>	<i>44.2</i>	<i>44.3</i>		<i>45.3</i>	<i>0.1</i>	<i>46.3</i>	<i>0.1</i>
Interest	2.4	4.0	71.8	2.2	(44.9)	1.5	(34.5)
Depreciation	3.5	3.3	(7.5)	3.0	(9.1)	2.98	0.0
Other Income	3.5	5.5		14.2		13.3	
<b>Recurring pre-tax income</b>	<b>32.5</b>	<b>90.3</b>	<b>177.6</b>	<b>108</b>	<b>20.0</b>	<b>129.5</b>	<b>19.6</b>
Taxation	10.2	24.4	140.4	32	29.3	40.7	28.9
<b>Recurring Net Income</b>	<b>22</b>	<b>66</b>	<b>194.5</b>	<b>77</b>	<b>16.6</b>	<b>89</b>	<b>15.8</b>
Minority Interest	6.0	20.6		23.1		3.7	
<b>NP after MI</b>	<b>16.3</b>	<b>45.2</b>	<b>177.1</b>	<b>53.6</b>	<b>18.7</b>	<b>85.1</b>	<b>58.6</b>

Source: Company data; i-SEC Research

**Chart 1: Company structure**



Source: Company

Recent reports/updates		
Analyst	Company/Sector	Date
Amar Kedia	Jet Airways : Set to soar higher	Jun 19
S Ramesh/Amit Mishra	Netback Margin (Jun '07): <i>Déjà vu</i>	Jun 18
Poonam Nishal	VSNL: Loose connection	Jun 8
Rajesh Vora	Glenmark Pharma: On a visionary trail	Jun 6
Vikash Mantri	India Media Sector: Triumph writ large	May 29
S Ramesh/Amit Mishra	Indraprastha Gas: Nonpareil feat	May 28
Anand /Shilpa Yadav	ITC: Undeterred	May 28
S Ramesh/Amit Mishra	BPCL: Poised to excel	May 24
Shilpa Gupta	Bharat Forge: In top gear	May 23
Gaurav Pathak	Real Estate Sector: Opportunities unleashed	May 21
Shilpa Gupta	Bajaj Auto: Golden opportunity	May 17
S Ramesh/Amit Mishra	Netback Margin (May '07): Refining stocks to fly	May 16
Shilpa Gupta	Hero Honda Motors: Long and winding road...	May 14
Anand / Shilpa Yadav	Britannia Industries: When going gets tough...	May 7
S. Ramesh / Amit	Indraprastha Gas: Refuelling for growth	May 3
S. Ramesh / Amit	Gujarat Gas: In the fast lane	May 3
Anand / Shilpa Yadav	Hindustan Lever: Muted tempo	May 3
Anand / Shilpa Yadav	GSK Consumer: Surprise packet	Apr 30
S. Ramesh/Amit	Reliance Industries: Growth plans on track	Apr 27
Rajesh Vora	Cipla: Sluggish gait	Apr 27
Anand /Shilpa Yadav	Godrej Consumer Products: Of waning hue	Apr 26
S Ramesh	BPCL: Piping hot	Apr 26
Rajesh Vora	Pharma: Theme note on Sun Pharma & Glenmark	Apr 24
Anand / Shilpa Yadav	Kansai Nerolac: Radiant hues	Apr 24
Anand / Shilpa Yadav	Colgate-Palmolive: Tranquil tone	Apr 23
S. Ramesh / Amit	Netback: Refining on a winning streak	Apr 19
Shilpa Gupta	Speedometer: Subdued pace	Apr 16
S. Ramesh / Amit	GAIL (India): Stepping up the gas	Apr 16
Shilpa Gupta	Automobiles Quarterly results preview: Mixed bag	Apr 12
Rajesh Vora	Pharma Quarterly results preview: In full bloom	Apr 11
S. Ramesh / Amit	Oil&Gas Quarterly results preview: Full blast ahead	Apr 9
Anand / Shilpa Yadav	FMCG Quarterly results preview: On a promising note	Apr 9
Rajesh Vora	Wockhardt: On come-back trail	Apr 5
Poonam Nishal	Utilities Quarterly results preview: Waiting for Godot	Apr 5
Amar Kedia	Aviation Quarterly results preview: Mixed bag	Apr 3
Rajesh Vora	Glenmark Pharma: Raising the bar	Apr 3
Amar Kedia	SpiceJet: Tempest to blow past	Apr 3
Poonam Nishal	Telecom Quarterly results preview: Swelling volumes to script success	Apr 2
S. Ramesh	Gujarat Gas: Set for new highs	Mar 30
Rajesh Vora	Cadila Healthcare: Run to form	Mar 26
Amar Kedia	Balmer Lawrie: Stirring up	Mar 23
Anand Shah	Nestle: On an accelerated growth path	Mar 22
S. Ramesh	Netback margin monthly: Refining, the lone star shining	Mar 19
Rajesh Vora	Sun Pharma: The Sun SPARCles	Mar 16
Vikash Mantri	Jagran Prakashan (Unrated): Augmenting clout	Mar 15
Shilpa Gupta	Speedometer (Mar '07) – Balanced manoeuvre	Mar 14
Eq. Research Team	Union Budget Review 2007-08	Mar 1

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