



Sterlite Industries

Relative to Sector: **Neutral**

MATERIALS

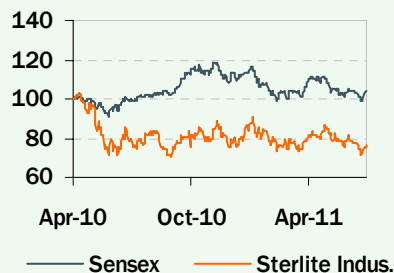
Stock Data

No. of shares	: 3,361 mn
Market cap	: Rs 577 bn
52 week high/low	: Rs 196/ Rs 149
Avg. daily vol. (6mth)	: 5.6 mn shares
Bloomberg code	: STLT IB
Reuters code	: STRL.BO

Shareholding (%) Mar-11 QoQ chg

Promoters	: 52.8	0.0
FIs	: 13.2	(0.2)
MFs / UTI	: 3.5	0.4
Banks / FIs	: 5.1	(0.0)
Others	: 25.3	(0.2)

Relative Performance



Source: ENAM Research, Bloomberg

Re-rating some time away

Financial Summary

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change (YoY %)	P/E (x)	EV/EBITDA (x)	P/BV (x)	RoE (%)	RoCE (%)	DPS (Rs)
2010	244,103	40,441	-	12.0	31	-	-	-	12.9	15.5	1.2
2011	302,481	47,228	-	14.1	17	-	-	-	12.0	15.4	1.4
2012E	393,027	74,009	21.1	22.0	57	7.8	4.9	1.3	17.0	19.5	1.4
2013E	440,778	86,602	25.3	25.8	17	6.7	3.8	1.1	17.2	19.1	1.5

Source: *Consensus broker estimates; Company, ENAM estimates

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Table of contents

	Slide No.
❖ Investment summary	3
❖ Sterlite v/s Vedanta – The structure !	4
❖ Growth – Volume build-up	5
❖ Earnings sensitivity and valuation	6
❖ HZL+ International zinc – Primary earnings driver	11
❖ Sterlite Energy – Story beginning to unfold	16
❖ Aluminium – Huge investment yet to fructify !	20
❖ Copper – Steady cashflows	24
❖ Assumptions and Financials	26

Investment summary

❖ Proven execution capability, low cost and volume driven earnings growth...

- ❑ Volume growth of 60% in zinc-lead, three fold increase in silver and 10% rise in aluminium production over the next 2 years
- ❑ Power story beginning to unfold: 1,200 MW at BALCO and 2,400 MW at Sterlite Energy to be fully operational by FY13E
- ❑ Global leadership in key businesses: Largest zinc-lead producer globally post the Anglo Zinc acquisition. Cost leadership in zinc (lowest decile) and copper processing (lowest quartile)

❖ ...Yet, the stock has de-rated and has underperformed the Sensex on:

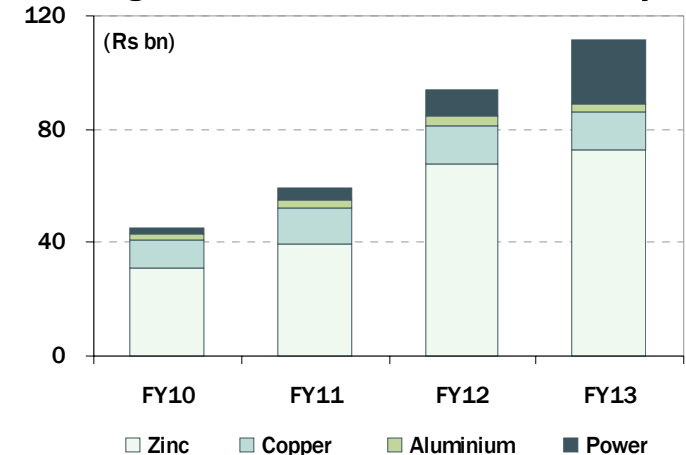
- ❑ Growing industry challenges: Environmental/ Forest challenges, stringent regulatory norms to expand and difficulties in acquiring new resources
- ❑ Deadlock in acquisition of Govt's balance stakes in BALCO & HZL
- ❑ Complex group structure

❖ Despite Sterlite's robust growth outlook, we expect the stock to trade in the range of Rs 150–200 (1–1.25x P/B) till end-game is achieved and do not expect any re-rating till then

❖ Re-initiate coverage with HOLD rating and an SOTP based target price of Rs 192

- ❑ Upside risks to our call are: (a) resolution of the bauxite mining issue, (b) minority stake buyout in BALCO & HZL, and (c) simplifying of the group structure (Sterlite vs. Vedanta)

90% growth of attributable EBITDA in 2 years

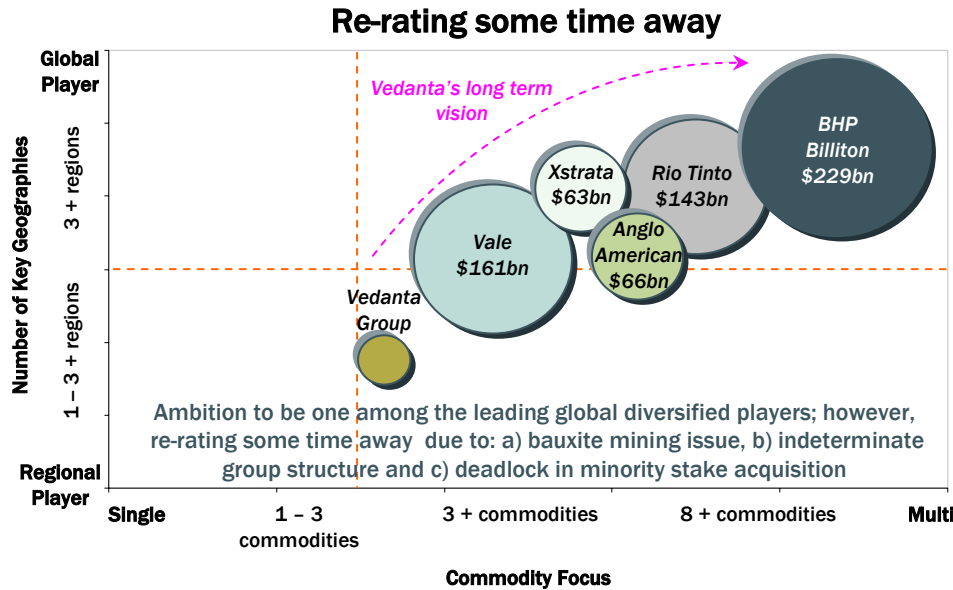


SOTP valuation

Business	(USD mn)	(Rs/ share)
HZL	8,609	115
Intl zinc assets	1,249	17
Sterlite Energy	1,870	25
BALCO	755	10
Copper (incl Aus copper mine)	870	12
VAL	954	13
Total	14,306	192

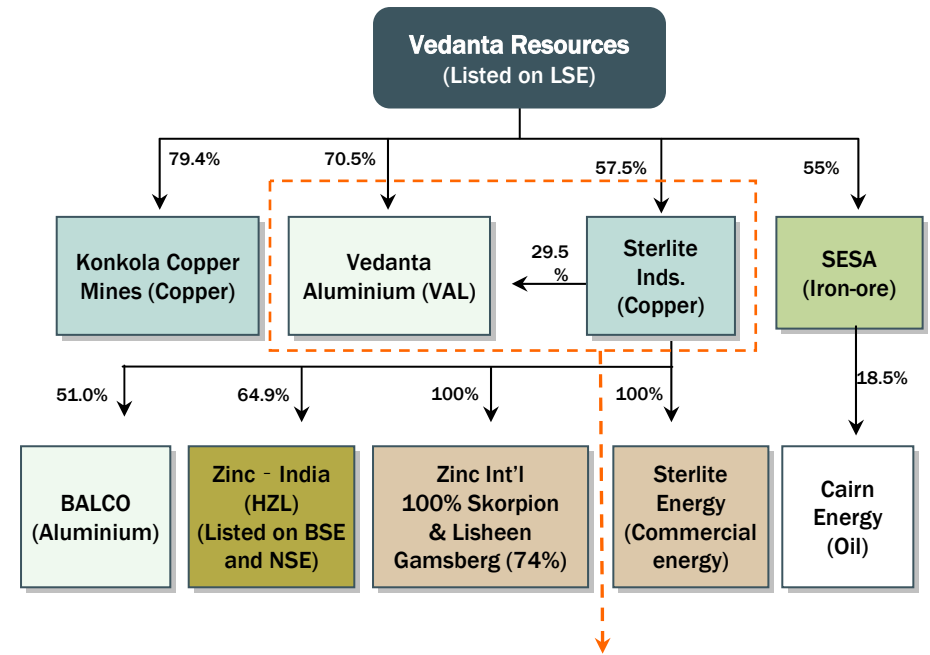
Source: ENAM Research

Sterlite v/s Vedanta: Structure v/s Shareholders' interest



- ❖ **Sterlite enjoys:** (a) global cost & volume leadership in zinc & silver, (b) expertise in buying undervalued resources and later scaling them up, and (c) successful execution & expansion of greenfield projects at competitive cost
- ❖ Vedanta's vision is to become a diversified global resource company similar to BHP/Xstrata. In the process, assets/business allocation of Sterlite may appear indeterminate till overall group structure of Vedanta is simplified

Vedanta Group Structure



Sterlite v/s Vedanta shareholders

Bauxite/alumina /aluminum project in VAL vs. Sterlite

- ❑ Loans and advances of Rs 80 bn (8% interest rate) despite only 29.5% stake; largely part of Rs 135 bn capex currently on HOLD.
- ❑ Project on hold due to lack of statutory clearance

Note: Vedanta's stake in Sterlite includes 2.9% indirectly held through MALCO

Sterlite: Volume driven growth

Volume growth

	FY09	FY10	FY11	FY12E	FY13E
Zinc (kt)	684	778	886	1,377	1,438
- Domestic	684	778	826	977	1,038
- Intl ops			60	400	400
Silver (tons)	103	139	147	350	450
Power	320	1,354	3,399	9,844	19,279
- BALCO (mn units)	320	1,354	1,625	1,862	5,147
- Sterlite Energy (mn units)			1,774	7,983	14,132
Aluminium (kt)	357	386	655	720	720
- BALCO	357	268	269	270	270
- VAL		119	386	450	450
Copper (kt)					
- Indian ops (processing)	313	334	304	334	320
- Australian ops (mining)	27	24	23	23	23

Assumptions

	FY09	FY10	FY11	FY12E	FY13E
Realization Assumptions					
- LME Copper (USD/ tonne)	5,882	6,101	8,139	9,000	9,500
- Copper TcRc (USc/ lb)	12	14	12	14	12
- LME Aluminium (USD/ tonne)	2,236	1,867	2,257	2,600	2,700
- LME Zinc (USD/ tonne)	1,572	1,933	2,187	2,300	2,400
- LME Lead (USD/ tonne)	1,657	1,980	2,244	2,400	2,400
Power (Rs/ kWhr)					
- Sterlite Energy			3.2	3.1	3.5
- Balco	3.7	5.0	5.0	4.0	4.0
Operating cost Assumptions					
- SIL smelting cost (USc/ lb)	7.9	6.7	7.0	7.2	7.5
- 'Balco cost					
- Aluminium (USD/ tonne)	2,053	1,897	2,089	2,382	2,556
- Power variable cost (Rs/ kWhr)	1.73	2.00	2.20	2.64	2.77
- HZL cost (USD/ tonne) - excl royalty	884	818	1,006	960	1,002

Strong volume growth in zinc and power businesses

Sterlite: EPS and Sensitivity

EPS Sensitivity - FY12E

(Rs)		LME Zinc (USD/ton)				
		1,900	2,100	2,300	2,500	2,700
Aluminium (USD/ton)	2,200	17.0	18.9	20.9	22.9	24.8
	2,400	17.5	19.5	21.5	23.4	25.4
	2,600	18.1	20.0	22.0	24.0	26.0
	2,800	18.6	20.6	22.6	24.6	26.5
	3,000	19.2	21.2	23.1	25.1	27.1

EPS Sensitivity - FY13E

(Rs)		LME Zinc (USD/ton)				
		2,000	2,200	2,400	2,600	2,800
Aluminium (USD/ton)	2,300	20.8	22.8	24.7	26.6	28.5
	2,500	21.4	23.3	25.2	27.1	29.1
	2,700	21.9	23.8	25.8	27.7	29.6
	2,900	22.5	24.4	26.3	28.2	30.2
	3,100	23.0	24.9	26.8	28.8	30.7

Target price sensitivity

(Rs)		FY12 LME Zinc (USD/ton)				
		1,900	2,100	2,300	2,500	2,700
Aluminium (USD/ton)	2,200	167	178	188	199	209
	2,400	169	179	190	200	211
	2,600	170	181	192	202	213
	2,800	172	183	193	204	214
	3,000	174	184	195	205	216

Target price sensitivity

(Rs)		FY12 LME Zinc (USD/ton)				
		1,900	2,100	2,300	2,500	2,700
USD INR	40	157	167	176	186	195
	42	164	174	184	194	204
	44	170	181	192	202	213
	46	177	188	199	210	221
	48	184	195	207	218	230

Source: ENAM Research

Earnings are most sensitive to zinc pricing as zinc biz. contributes to 60% of earnings. Assuming the bottom zinc/aluminium prices of last one year, worst case EPS for FY12E is ~Rs 19

Sterlite: SOTP valuation

	(USD mn)	(Rs bn)	(Rs/ share)
SIL (Inc copper mine in Aust.) at 4x FY12 EV/ EBITDA			
EV per share	1,221	55	16
Less: Net debt at standalone level	(352)	(16)	(5)
Value of Sterlite standalone	870	39	12
Intl zinc assets (acquired from Anglo) at 4x FY12 EV/ EBITDA			
Value after 15% holding discount)	1,249	56	17
HZL - 65% stake, (5.5x FY12 EV/EBITDA)			
Value after 15% holding discount	8,609	387	115
Balco - 51% stake (5x FY12 EV/EBITDA)			
Value after 15% holding discount	755	34	10
Sterlite Energy - 100% stake (P/E based valuation)			
Value after 15% holding discount	1,870	84	25
VAL - 29.5% stake			
50% discount to amount invested	954	43	13
Target price	14,306	644	192
(Current USD/INR 45)			

Source: ENAM Research

Sterlite: Peer valuations

Company Name	Mkt Cap (\$ mn)	EV (\$ mn)	OPM (%)		EV/ EBITDA (x)		P/ E (x)		P/ BV (x)		ROE (%)	
			CY11/ FY12	CY12/ FY13	CY11/ FY12	CY12/ FY13	CY11/ FY12	CY12/ FY13	CY11/ FY12	CY12/ FY13	CY11/ FY12	CY12/ FY13
Xstrata	66,199	75,694	39	40	5.4	4.9	8.8	7.9	1.4	1.2	16.6	16.8
Tech Resources	31,548	35,467	53	54	5.3	4.9	9.7	9.0	1.6	1.4	18.1	15.7
Vedanta Resources PLC	8,888	18,894	37	39	3.1	2.5	5.6	4.6	1.3	1.0	26.9	28.5
Antofagasta PLC	22,598	22,608	68	69	4.6	4.2	11.4	9.8	3.2	2.7	27.8	27.3
Aluminum Corp	19,855	30,179	10	12	14.6	11.5	22.0	16.1	1.3	1.2	5.4	8.5
United Co RUSAL Plc	21,046	32,508	25	24	10.1	9.9	6.9	6.4	1.5	1.2	21.5	18.4
Nalco	4,905	3,743	31	29	6.8	6.2	13.4	13.0	1.7	1.5	13.4	12.4
Hindalco Inds	8,079	12,712	12	12	6.2	6.0	10.0	9.9	1.3	1.2	12.8	11.6
Sterlite Industries	13,031	12,497	32	33	4.8	3.7	7.6	6.5	1.2	1.0	17.0	17.2

Source: Bloomberg, ENAM Research

Sterlite's valuations are at 10-30% discount to domestic and international peers



Business segments & outlook

Business structure

Revenues (Rs mn)

	FY11	FY11-% of total	FY12E	FY13E	FY13 - % of total
Copper (India+ Aus)	158,805	53%	154,250	151,841	34%
Aluminium (BALCO)	30,709	10%	34,323	34,514	8%
Zinc: HZL+ International zinc	99,121	33%	172,149	184,557	42%
Power (Sterlite Energy+BALCO)	13,845	5%	32,305	69,866	16%
Total	302,481	100%	393,027	440,778	100%

Attributable EBITDA (Rs mn)

	FY11	FY11-% of total	FY12E	FY13E	FY13 - % of total
Copper (India+ Aus)	12,814	22%	13,740	13,277	12%
Aluminium (BALCO)	2,607	4%	3,040	2,573	2%
Zinc: HZL+ International zinc	39,471	67%	67,586	73,020	65%
Power (Sterlite Energy+BALCO)	4,351	7%	9,724	22,920	21%
Total	59,244	100%	94,089	111,789	100%

Source: Company, ENAM Research

Zinc to remain the key growth driver; Power to start contributing to the incremental growth



Zinc: Primary earnings driver

Zinc: Summary

❖ **Post acquisition of Anglo's zinc assets, Sterlite is now the world's largest zinc-lead producer (capacity of 1.5 mnt)**

- ❑ Significant mine reserve life of 25+ years ¹.
- ❑ Indian ops added reserves & resources of 22 mnt in FY11 thereby increasing total reserves & resources to 313 mnt
- ❑ Recent Anglo assets acquisition added reserves to the extent of 206 mnt
- ❑ Indian ops cash cost at USD 1,000 per ton (ex- royalty), while, cost of production at int'l ops is ~20% higher

❖ **Domestic zinc & lead volumes to grow @ 25%+ in 2 yrs**

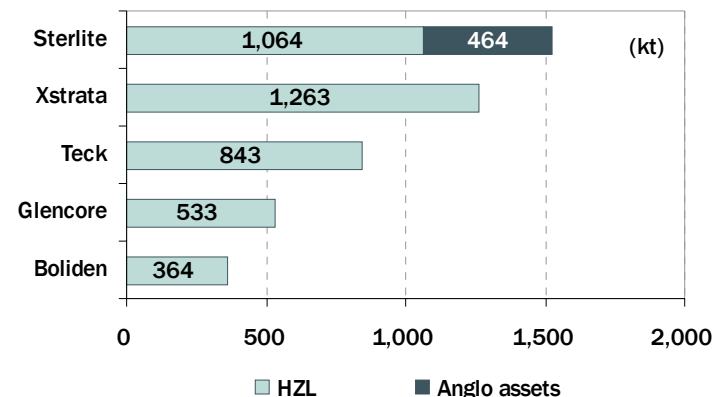
- ❑ Driven by the Dariba smelter and Sindesar Khurd expansion

❖ **Full impact of the international zinc acquisition will be visible in FY12E, as these were acquired in 4QFY11**

❖ **We expect zinc to contribute ~75% of EBITDA in FY12E and 70% in FY13E**

- ❑ Of this, HZL (Sterlite's 65% subsidiary) contributes ~60%, while the remaining comes from Anglo assets

Sterlite – largest zinc-lead producer globally*



Zinc summary

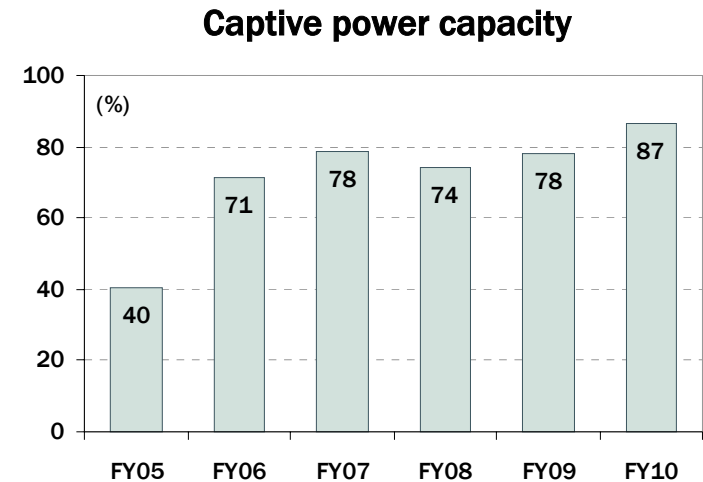
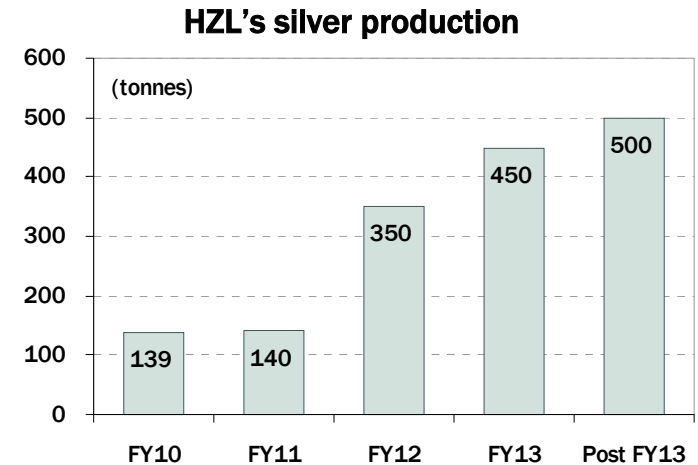
	FY09	FY10	FY11	FY12E	FY13E
Sales volumes					
- Zinc & lead (HZL) - kt	684	778	826	977	1,038
- Intl ops - kt			60	400	400
- Silver (tons) - HZL	103	139	147	350	450
Revenues (Rs mn)	57,760	81,250	107,182	173,498	185,974
HZL	57,760	81,250	100,348	131,162	143,274
Intl ops	-	-	6,834	42,336	42,700
EBITDA (Rs mn)	28,298	47,781	59,135	95,073	103,200
HZL	28,298	47,781	56,183	78,536	86,229
Intl ops			2,952	16,537	16,971
COP (incl royalty) - USD/t					
HZL	1,018	1,015	1,243	1,222	1,287
Intl ops			1,420	1,463	1,506
LME zinc (USD/t)	1,572	1,933	2,187	2,300	2,400
LME lead (USD/t)	1,657	1,980	2,244	2,400	2,400
Silver price (USD/ounce)	14	16	24	30	30

Total EBITDA of > USD 2 bn for FY12E, at current zinc prices !

HZL – Indian operations

- ❖ **Cost of production (COP) in the lowest decile globally**
 - ❑ Share of captive power has consistently increased over the years. Current captive power capacity is at 474 MW (including 160 MW as part of the Dariba expansion)
 - ❑ COP to remain at current levels in FY12E and FY13E due to benefits of scale (cost excluding royalty is at ~USD 1,000). Overhead cost per ton to decline 11% by FY13E

- ❖ **Silver production to increase to 16.1 mn oz (500 tonnes) post FY13E from the current level of 4.5 mn oz (140 tonnes)**
 - ❑ The rise in production is attributable to the increased mine volumes from silver-rich Sindesar Khurd mine. High silver grade of 180 ppm is available at Sindesar, as compared to Rampura (64 ppm) and Dariba (88 ppm)
 - ❑ Silver revenue is treated as a by-product credit. Thus, the entire silver revenue will add to the EBITDA



Source: Company, ENAM Research

Int'l zinc assets: Payback period of 4 years

- ❖ Anglo's zinc assets were acquired at a valuation of USD 1.5 bn (3.9x FY12 EV/EBITDA)
- ❖ Cost of production at int'l ops is ~20% higher than domestic ops (USD 1,463/tonne); however, it is relatively cost-competitive as compared to global players (in-between 3rd and 4th decile in the global mining cost-curve)
- ❖ Int'l assets to contribute 13% and 12% to Sterlite's total EBITDA in FY12E and FY13E respectively
- ❖ Gamsberg project – positive in the long-term
 - ❑ One of the world's largest undeveloped zinc deposit
 - ❑ Has potential to produce 400kt of zinc (Sterlite's share @74% – 296 kt)

Assets acquired	(USD mn)	Reserves & resources			2010 production (kt)	
		mnt	Zn%	Pb%	Zinc	Lead
74% Interest in Black Mountain (remaining 26% held by Exxaro)	448					
- Black Mountain mine		52	1.5%	2.9%	36	51
- Gamsberg project *		138	6.9%	0.4%	-	-
Scorpion zinc mine (100%)	661	8	11.3%		139	
Lisheen mine (100%)	337	9	11.9%	1.9%	175	21
Total consideration paid	1,446	206			350	71
FY12 EBITDA	375					
Implied EV/EBITDA (x)	3.9					

* - Currently under development stage.

Current low mine life can be expanded! Potential to develop 400 ktpa of zinc from Gamsberg in the long-term

Zinc sector outlook: Favorable in the long-term

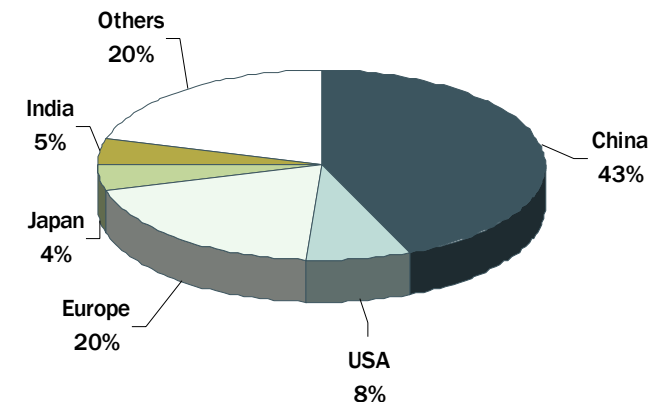
- ❖ After growing by 13% in 2010, worldwide demand to grow at 4% in 2011, due to lower Chinese growth.
- ❖ Supply surplus to gradually diminish from the highs in 2009
 - ❑ Collapse in global demand during 2009 led to a sizeable 0.43 mnt surplus
 - ❑ Mines that were shutdown in 2009 have restarted operations due to recovery in LME prices. Most of the mines worldwide are profitable beyond USD 2,000/t
 - ❑ Market surplus to reduce gradually to 0.16 mnt by 2011, led by demand recovery in developed economies and growth in EMs
- ❖ Long-term price outlook seems positive due to: a) market surplus diminishing gradually and b) high marginal cost of production
- ❖ Our FY12E and FY13E LME zinc price estimates (USD/tonne) are at 2,300 and 2,400 respectively (currently at ~2,340)

Worldwide zinc demand-supply balance

(mn tn)	2007	2008	2009	2010	2011F
Mine production	11.1	11.8	11.3	12.3	13.3
Metal production	11.3	11.8	11.3	12.8	13.2
Growth (%)	7%	4%	-4%	13%	4%
Metal usage	11.3	11.6	10.8	12.5	13.1
Growth (%)	2%	3%	-6%	16%	5%
Implied supply/(deficit)	0.07	0.21	0.45	0.26	0.16
LME zinc price (USD/t) ^	3,255	1,882	1,661	2,159	2,300

^ Zinc price estimates are for financial year

China's share in global zinc usage by 2011



Source: ILZSG, ENAM Research



Power: Sterlite Energy
Story beginning to unfold

Sterlite Energy: In a Nutshell

Capacity (4,380 MW)	Jharsuguda, Orissa (2,400 MW)	Talwandi, Punjab (1,980 MW)
2400 MW capacity to be fully operational by end FY13	1,200 MW operational Full CoD by Q4FY12	Full CoD by Q1FY15
1,680 MW of Merchant Capacity	<ul style="list-style-type: none"> ❑ 1,680 MW Merchant. ❑ Regulated : 600 MW @ CERC and 120 MW at variable charge 	<ul style="list-style-type: none"> ❑ 100% Regulated to Punjab state at levelised Rs 2.83/kWh with fuel pass through provision
Fuel	Linkage from MCL (40% Linkage + 50% e-auction + 10% imported)	Linkage form CIL
Fuel required	~13 mtpa @ avg GCV of 3,200	~7.2 mtpa @ avg GCV of 4,500

Source: Company, ENAM Research

Project Description

Project details

Project Name	Location	Stake (%)	Capacity (MW)	Capex (Rs bn)	Cost/MW (Rs mn)	D:E (x)	Equity (Rs bn)	1st unit CoD / Full operation
Under construction			4,380	175	40		53	
- Jharsuguda	Orissa	100	2400	82	34	70:30	25	Q3FY11/Q2FY13
- Talwandi Sabo	Punjab	100	1,980	93	47	70:30	28	Q2FY14/Q1FY15

Off-take agreements

Project	Capacity (MW)	% total	Off-taker	Time (yrs)	Levelised tariff	Comments
- Jharsuguda	720	30%	Gridco	25	~Rs 2.3 / Unit Levelized	600 MW @ CERC linked with ROE of 15.5% + 120 MW @ variable cost
	1,680	70%	Merchant	25	Rs 4.2 / Unit	at Rs 4/ Kwh
- Talwandi Sabo	1,980	100%	PSEB	25	~Rs 2.61 / Unit	PPA @ 18% ROE

Sales mix

Y/E	FY11	FY12E	FY13E	FY14E	FY15E
Regulated (MW)	720	720	720	2,040	2,700
Merchant (MW)	480	630	1,430	1,680	1,680
% break up					
Regulated	60%	53%	33%	55%	62%
Merchant	40%	47%	67%	45%	38%

Financial valuation

Valuation

Project name	Full Year Operations	In full year operations		Value today (Rs bn)	Value today (Rs/Sh)
		PAT (Rs bn)	Target P/E (x)		
- Jharsuguda	FY14	11	8	64	19
- Talwandi Sabo	FY16	6	12	35	10
Discount rate			20%		
Target Price				99	29
Less 15% holding discount				15	4
Target Price (After Holding discount)				84	25

Project Economics

Project	Full Operations Year	Net Generation (mn kwh)	Fixed Cost (Rs/Kwh)	Fuel Cost (Rs/kwh)	Total Cost (Rs/Kwh)	Blended Sales Price (Rs/kwh)	Regulated Price (Rs/kwh)	Merchant Price (Rs/kwh)	PBT (Rs/ Kwh)	PBT (Rs bn)	Tax rate (%)	PAT (Rs bn)
Jharsuguda	FY14	16,083	0.8	2.0	2.7	3.6	3.0	4.0	0.9	14	20	11
Talwandi Sabo	FY16	13,564	0.8	1.7	2.5	3.1	3.1	4.0	0.6	8	20	6
Total (Wtd average)		29,647	0.8	1.8	2.6	3.4						



**Aluminum: Huge investment yet to
fructify !!**

Aluminium: Summary

❖ BALCO (51% owned)

- ❑ Line 1
 - ▶ Smelter (100kt) and refinery (200kt) not in use
 - ▶ 270 MW power plant – power sold externally
- ❑ Line 2
 - ▶ 250 kt smelter and 540MW power
- ❑ Self-sufficient in bauxite (to the extent of 4/5th), with bauxite mining capacity of 1.2 mnt
 - ▶ Bauxite transferred to the VAL refinery for processing and then transported to the BALCO smelter

❖ VAL (29.5% owned)

- ❑ Smelter (500kt), refinery (1 mnt) and power (1,215MW)
- ❑ Relies fully on external sources for alumina/bauxite

Aluminium summary

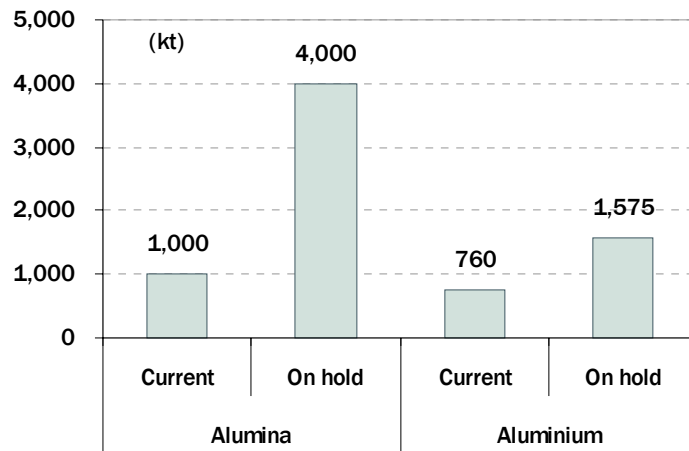
	FY09	FY10	FY11	FY12E	FY13E
Sales volumes (kt)					
- BALCO	357	268	269	270	270
- VAL	-	119	386	450	450
Revenues (Rs mn)					
- BALCO	41,182	28,068	30,709	34,323	34,514
- VAL	2,142	16,473	39,692	51,597	51,881
EBITDA (Rs mn)					
- BALCO	7,545	4,535	5,112	5,960	5,044
- VAL	(14)	356	787	829	793
Avg. realisation (USD/t)					
- BALCO	2,500	2,210	2,506	2,883	2,994
- VAL		2,183	2,257	2,600	2,700
COP (USD/t)					
- BALCO (avg. cost)*	2,053	1,897	2,089	2,382	2,556
- BALCO (ingot cost)	1,853	1,697	1,889	2,182	2,356
- VAL (ingot cost)		1,983	1,900	2,280	2,394

Source: Company, ENAM Research. Note: *-Avg. cost is higher than ingot cost due to rolling cost of ~USD 200 per ton

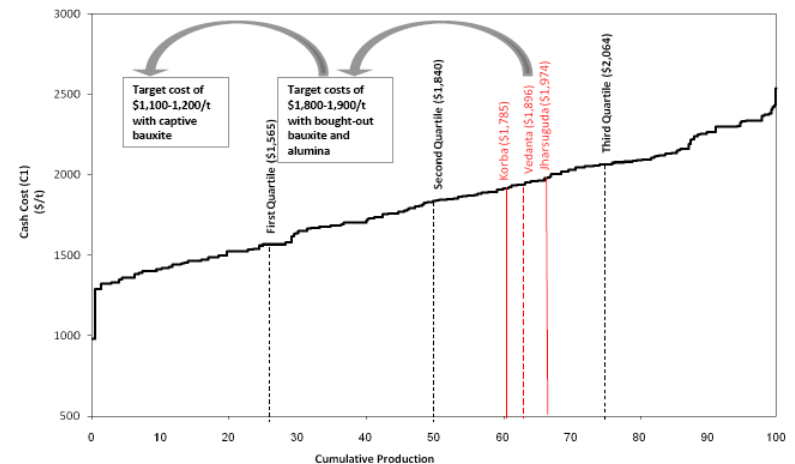
Aluminium – Hinging on regulatory clearances

- ❖ **Alumina refinery (4 mnt) and smelter (1,250kt – VAL and 325 kt – BALCO) on hold due to issues in obtaining bauxite clearances at Niyamgiri**
 - ❑ Potential to increase alumina capacity by five-fold and aluminium capacity by three-fold (if it obtains bauxite clearances)
- ❖ **Cost of production, currently in the third quartile, is higher due to bought out alumina/bauxite**
- ❖ **Potential to move to the first quartile incase clearances are obtained for bauxite resources and coal mine for its power plants**
- ❖ **Sterlite’s total exposure to VAL (equity + loans & advances) is at Rs 85.6 bn (~Rs 25 per share)**
 - ❑ Capex already incurred for smelter and refinery which are on hold at VAL is ~ USD 2.8bn.
 - ❑ In addition, capex of USD 350 mn is incurred at BALCO for the 325kt smelter which is also currently on hold.

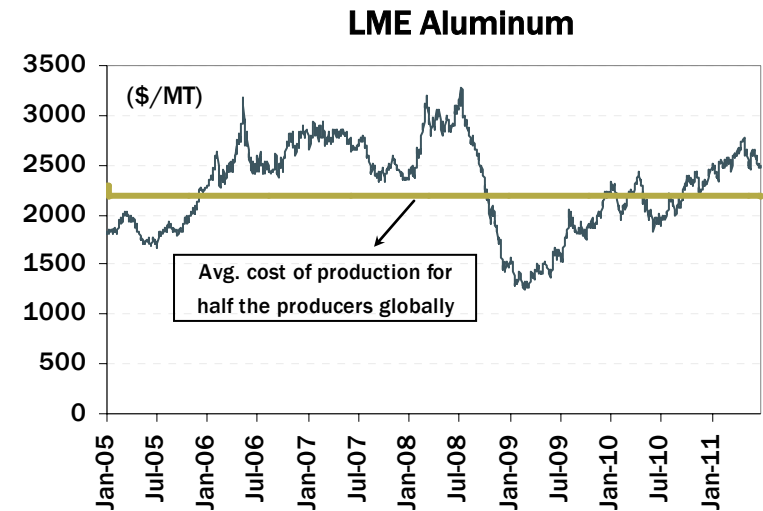
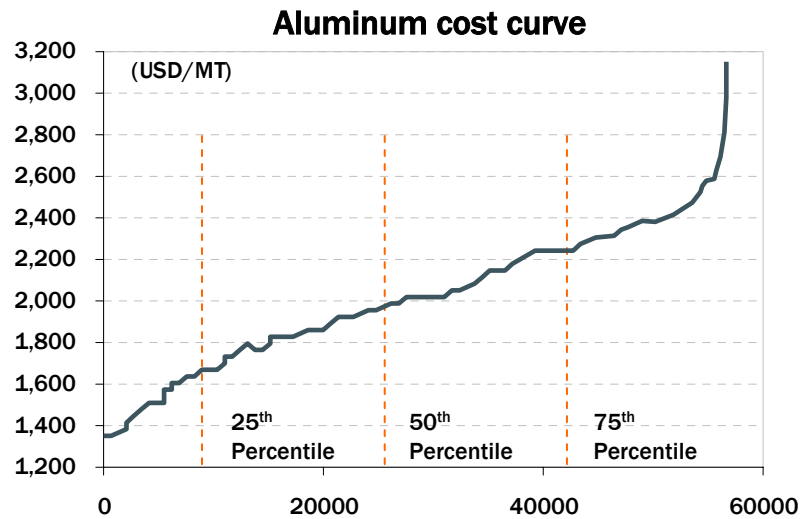
Alumina and aluminium capacities



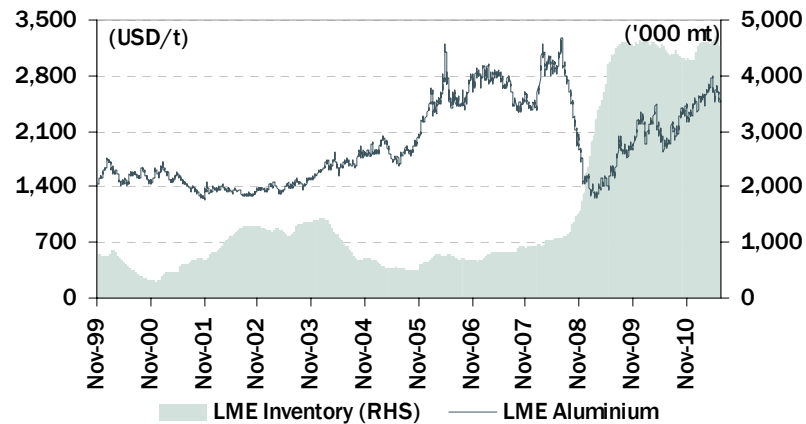
Aluminium cost curve



Aluminum outlook: Range of USD 2,200-2,700



Long term aluminium price & inventory chart



Aluminium prices to be in the range of USD 2,200-2,700/t – high COP to act as a floor, while high inventory levels to prevent a substantial increase



Copper: steady cashflows

Copper – steady cashflows

❖ Indian copper ops (custom smelting & refining)

- ❑ Steady profits
 - ▶ Copper cathode capacity : 400kt and copper rod capacity: 268kt
 - ▶ Steady EBIDA of ~Rs 8 bn annually.
- ❑ Driven by cost leadership
 - ▶ Operates in the first quartile with a COP of USD 5/lb.
- ❑ Brownfield expansion of 400kt on hold due to concerns from the State Pollution Control Board
 - ▶ Total capex of USD 500 mn, of which ~USD 150 mn is already spent
 - ▶ Plans to go-ahead with the 160MW CPP and sell power externally until the commissioning of the smelter is complete

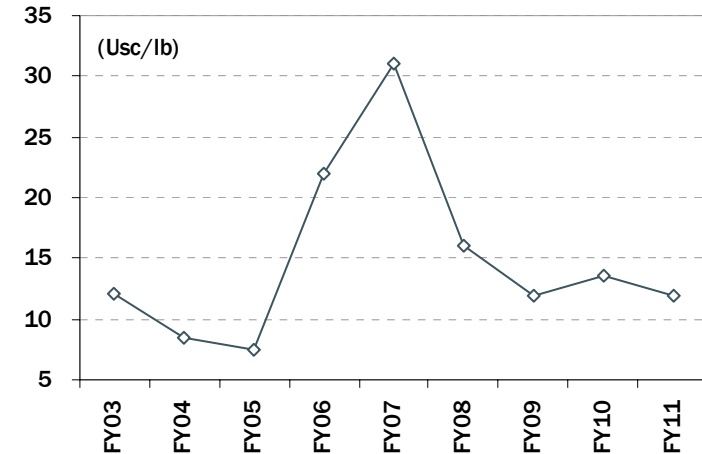
❖ Australian copper (mining operations)

- ❑ Small mine with limited life
- ❑ Not very significant in overall EBITDA : ~4% of consolidated EBITDA and ~8% of copper concentrate need of domestic smelter

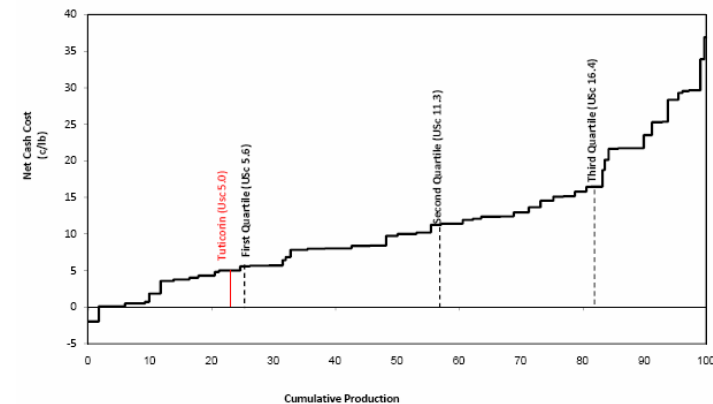
Copper summary

	FY09	FY10	FY11	FY12E	FY13E
Volumes (kt)					
Indian ops (smelting)	313	334	304	334	320
Australian ops (mining)	27	24	23	23	23
EBITDA (Rs mn)					
Indian ops (smelting)	9,641	6,218	7,740	7,992	7,474
Australian ops (mining)	2,642	3,800	5,373	5,748	5,803
LME copper (USD/t)	5,882	6,101	8,139	9,000	9,500
Copper TcRc (Cent/lb)	12	14	12	14	12

Historical Tc/Rc chart



Cost leadership in copper smelting ops: First quartile globally





Assumptions and Financials

Assumptions snapshot by business

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Volume ('000 tonnes)					
<i>Copper ('000 tonnes)</i>					
- Sterlite Industries (100%)	313	334	304	334	320
- CMT, Aus (100%)	27	24	23	23	23
Aluminum ('000 tonnes)					
- Balco (51%)	357	268	269	270	270
- Vedanta Aluminium (29.5%)	0	119	386	450	450
Zinc and Lead					
- HZL (65%) - Zinc	623	713	768	837	868
- HZL (65%) - Lead	61	64	57	140	170
- Intl ops			60	400	400
- Silver (tonnes) - HZL	103	139	147	350	450
Power (mn units)					
- Sterlite Energy (100%)			1,774	7,983	14,132
- Balco (51%)	320	1,354	1,625	1,862	5,147
USD INR	46.2	47.4	45.6	44.1	42.7
Realization Assumptions					
- LME Copper (USD/ tonne)	5,882	6,101	8,139	9,000	9,500
- Copper TcRc (USc/ lb)	12	14	12	14	12
- LME Aluminium (USD/ tonne)	2,236	1,867	2,257	2,600	2,700
- LME Zinc (USD/ tonne)	1,572	1,933	2,187	2,300	2,400
- LME Lead (USD/ tonne)	1,657	1,980	2,244	2,400	2,400
Power (Rs/ kWhr)					
- Sterlite Energy			3.2	3.1	3.5
- Balco	3.7	5.0	5.0	4.0	4.0
Operating cost Assumptions					
- SIL smelting cost (USc/ lb)	7.9	6.7	7.0	7.2	7.5
' Balco cost					
- Aluminium (USD/ tonne)	2,053	1,897	2,089	2,382	2,556
- Power variable cost (Rs/ kWhr)	1.73	2.00	2.20	2.64	2.77
- HZL cost (USD/ tonne) - excl royalty	884	818	1,006	960	1,002

Financials: Segment-wise

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Revenue (Rs mn)					
Sterlite Inds. (Copper TcRc)	107,984	131,143	152,950	145,464	142,800
CMT, Aus (Copper mining)	6,978	6,574	8,224	8,786	9,041
Balco (51% stake)	39,678	33,300	38,833	41,769	55,100
- Aluminium	39,678	26,561	30,709	34,323	34,514
- Power		6,739	8,124	7,446	20,586
HZL (65%) - Zinc and Lead	56,803	80,170	99,121	129,813	141,857
Intl zinc operations				42,336	42,700
Sterlite Energy (100%) - Power		0	5,721	24,859	49,280
TOTAL	211,442	244,103	302,481	393,027	440,778
EBITDA					
Sterlite Inds. (Copper TcRc)	9,838	5,794	7,442	7,992	7,474
CMT, Aus (Copper mining)	2,642	3,800	5,373	5,748	5,803
Balco (51% stake)	8,185	7,929	9,662	8,492	11,364
- Aluminium	8,185	4,535	5,112	5,960	5,044
- Power		3,394	4,549	2,532	6,320
HZL (65%) - Zinc and Lead	28,298	47,781	56,183	78,536	86,229
Intl zinc operations			2,952	16,537	16,971
Sterlite Energy (100%) - Power		-155	2,031	8,433	19,697
TOTAL	48,236	63,048	80,568	125,738	147,538
PAT	30,916	40,441	47,228	74,009	86,602

Company Financials

Income statement

(Rs mn)

Y/E March	2010	2011	2012E	2013E
Net sales	244,103	302,481	393,027	440,778
Other operating income	903	2,071	2,196	2,285
Total Income	245,006	304,552	395,223	443,063
Cost of goods sold	174,702	214,924	260,433	285,334
Contribution (%)	29	30	34	36
Advt/Sales/Distrn O/H	7,256	9,060	9,053	10,192
Operating Profit	63,048	80,568	125,738	147,538
Other income	17,600	20,951	26,305	33,330
PBIDT	80,648	101,519	152,043	180,868
Depreciation	7,498	10,301	13,851	17,338
Interest	3,424	3,312	7,072	11,393
Other pretax	0	0	0	0
Pre-tax profit	69,726	87,905	131,120	152,137
Tax provision	12,632	17,882	29,142	35,263
(-) Minority Interests	17,241	19,945	26,521	28,693
Associates (Vedanta Alumina)	588	(2,850)	(1,448)	(1,579)
Adjusted PAT	40,441	47,228	74,009	86,602
E/o income / (Expense)	(3,004)	3,198	0	0
Reported PAT	37,437	50,425	74,009	86,602

Key ratios

(%)

Y/E March	2010	2011	2012E	2013E
Sales growth	15.4	23.9	29.9	12.1
OPM	25.8	26.6	32.0	33.5
Oper. profit growth	30.7	27.8	56.1	17.3
COGS / Net sales	71.3	70.6	65.9	64.4
Overheads/Net sales	3.0	3.0	2.3	2.3
Depreciation / G. block	4.4	3.8	4.7	4.9
Effective interest rate	4.2	3.2	4.4	5.3
Net wkg.cap / Net sales	0.2	0.3	0.3	0.4
Net sales / Gr block (x)	1.6	1.4	1.4	1.4
Incremental RoCE	10.8	19.5	47.5	46.9
RoCE	15.5	15.4	19.5	19.1
Net Debt / equity (x)	(0.3)	(0.2)	(0.1)	(0.2)
Effective tax rate	18.1	20.3	22.2	23.2
RoE	12.9	12.0	17.0	17.2
Payout ratio (Div/NP)	10.6	9.4	6.4	6.0
EPS (Rs.)	12.0	14.1	22.0	25.8
EPS Growth	30.8	16.8	56.7	17.0
CEPS (Rs.)	14.3	17.1	26.1	30.9
DPS (Rs.)	1.2	1.4	1.4	1.5

Source: Company, ENAM Research

Company Financials

Balance sheet

(Rs mn)

Y/E March	2010	2011	2012E	2013E
Total assets	562,340	656,282	803,177	943,301
Gross block	168,991	272,967	296,713	352,363
Net fixed assets	109,858	175,056	208,186	246,499
CWIP	110,844	121,501	109,620	95,980
Investments	22,912	2,251	804	(776)
Wkg. cap. (excl cash)	92,418	92,130	158,468	172,851
Cash / Bank balance	213,510	226,426	287,181	389,829
Others/Def tax assets/Goodwill	12,799	38,918	38,918	38,918
Capital employed	562,341	656,282	803,177	943,301
Equity capital	3,362	3,361	3,361	3,361
Reserves (Inc. minorities)	450,855	513,897	577,530	696,386
Borrowings	92,600	117,287	204,019	225,286
Others/Def tax liab/Cap Res.	15,524	21,736	18,267	18,267

Cash flow

(Rs mn)

Y/E March	2010	2011	2012E	2013E
Sources	159,177	103,462	176,512	157,461
Cash profit	63,872	83,522	94,507	141,394
(-) Dividends	3,953	4,747	4,727	5,199
Retained earnings	59,919	78,775	89,780	136,194
Issue of equity	76,793	0	0	0
Borrowings	22,465	24,687	86,732	21,267
Others	0	0	0	0
Applications	159,177	103,462	176,512	157,461
Capital expenditure	66,707	114,634	50,866	42,010
Investments	(1,327)	(20,661)	(1,448)	(1,579)
Net current assets	73,157	(288)	66,338	14,383
Change in Minorities/ Asso.	0	0	0	0
Change in cash	20,640	9,777	60,755	102,648

Source: Company, ENAM Research

Note: Value of investments is negative for FY13, due to share of accumulated losses from VAL

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5. Broking relationship	No

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