

## Contents

### Change in recommendations

**Sterlite Industries:** Management cancels restructuring following negative shareholder feedback

## News Roundup

### Corporate

- TPressure from investors and the consequent fall of its shares have forced Anil Agarwal's **Vedanta Resources** Plc. to abandon a restructuring plan that was announced on September 9. (*Mint*, see our analysis inside)
- TWith Singur being almost out of bounds for the Nano, **Tata Motors** is now understood to be readying assembly lines for the small car at its existing facilities in Pantnagar and Pune. (*ET*) Meanwhile, (for the long term) Karnataka is emerging as the front-runner in Tata Motor's search for an alternative site for the Nano project. (*BS*)
- TAfter offloading a 45% stake to UAE's **Etisalat** for \$900 mn, **Swan Telecom** is set to acquire **Allianz Infratech's** mobile licences. Swan, which has bagged licences to operate in 13 telecom zones in India, is not present in Madhya Pradesh and Bihar, the only two circles in which Allianz has been permitted to launch services. (*ET*)
- TChennai-based **Paramount Airways** is planning to enter international skies by 2011-12. The company is looking at Europe and South-East Asia to start with. (*BS*)
- **T9X** is in talks with **Balaji Telefilms** to divest a significant stake for which the promoters are targeting a valuation of US\$120-150. (*ET*)
- **THousing Development and Infrastructure** (HDIL) and Mumbai-based real estate firm **Akruti City** are planning to tap a vast redevelopment opportunity in South Mumbai, the country's most expensive property market. (*ET*)
- **TBharat Heavy Electricals** (Bhel) has identified locations to set up greenfield units for manufacturing nuclear power equipment in Andhra Pradesh and Gujarat. (*ET*)
- **TBajaj Auto**, the country's second largest motor bike manufacturer, yesterday began selling the Platina 125cc in a bid to gain market share from its biggest rival, **Hero Honda Motors**. (*BS*)
- **TIFC**, a member of the **World Bank Group**, has announced that it has given a US\$100 mn loan to **Idea Cellular** to help the company expand its network. (*BL*)

### Economic and political

- TThe move to make sovereign rupee bonds tradable on international bourses has gathered pace, with the finance ministry asking the 13th Finance Commission to work out some contours of the proposal. (*FE*)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

## EQUITY MARKETS

India	Change, %			
	24-Sep	1-day	1-mo	3-mo
Sensex	13,693	0.9	(4.9)	(2.9)
Nifty	4,161	0.8	(3.8)	(0.7)

Global/Regional indices				
Dow Jones	10,825	(0.3)	(6.9)	(8.3)
FTSE	5,096	(0.8)	(7.4)	(9.6)
Nikkie	11,856	(2.1)	(7.9)	(14.3)
Hang Seng	18,962	0.5	(10.2)	(16.2)
KOSPI	1,480	(1.1)	(1.5)	(13.8)

Value traded - India				
	Moving avg, Rs bn			
	24-Sep	1-mo	3-mo	
Cash (NSE+BSE)	160.7	168.6	176.2	
Derivatives (NSE)	670.5	443.3	703	
Deri. open interest	915.9	832	838	

### Forex/money market

	Change, basis points			
	24-Sep	1-day	1-mo	3-mo
Rs/US\$	46.0	32	219	314
6mo fwd prem, %	0.7	(25)	71	24

### Net investment (US\$m)

	23-Sep	MTD	CYTD
FIs	(215)	-	(7,299)
MFs	(49)	-	2,501

### Top movers -3mo basis

Best performers	Change, %			
	24-Sep	1-day	1-mo	3-mo
BANK OF BARODA	301	(1.0)	13.7	42.7
BHARAT PETROLEU	350	1.2	17.3	29.6
TATA COMMUNICA	465	1.1	12.5	28.9
STATE BANK OF INC	1,518	1.0	11.9	27.1
UNION BANK OF INC	144	(1.8)	9.4	26.9

Worst performers				
HOUSING DEVELOP	209	(0.3)	(31.2)	(43.9)
RANBAXY LABORAT	311	0.7	(39.1)	(42.9)
JSW STEEL LIMITED	580	1.2	(23.6)	(42.3)
INDIABULLS REAL E	209	(0.1)	(30.9)	(36.9)
INFRASTRUCTURE D	79	0.3	(15.9)	(34.6)

Kotak Institutional Equities Research

kotak.research@kotak.com

Mumbai: +91-22-6634-1100

**Metals****STRL.BO, Rs488**

Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	540
52W High -Low (Rs)	1150 - 405
Market Cap (Rs bn)	345.7

**Financials**

March y/e	2008	2009E	2010E
Sales (Rs bn)	247.1	236.4	246.5
Net Profit (Rs bn)	45.6	33.5	36.0
EPS (Rs)	64.3	47.3	50.9
EPS gth	(22.6)	(26.5)	7.6
P/E (x)	7.6	10.3	9.6
EV/EBITDA (x)	5.4	7.1	6.2
Div yield (%)	0.0	0.0	0.0

**Sterlite Industries: Management cancels restructuring following negative shareholder feedback**

Rahul Jain : rahulk.jain@kotak.com, +91-22-6634-1318

Amit Agarwal : agarwal.amit@kotak.com, +91-22-6749-3390

- **Cancellation of the proposed group restructuring due to 'changes in global financial markets and investor feedback'**
- **We view the cancelation as a positive step—revise our SOTP-based target price to Rs540/share (Rs460/share previously); revise our rating to REDUCE (SELL previously)**
- **Zinc and aluminum prices have come off significantly—we expect weakness to continue**

The management of Sterlite Industries (SIL) has decided not to pursue the proposed restructuring scheme announced on September 9, 2008, by which the company's aluminum and power assets were to be transferred to a group company, Madras Aluminum Company, for stock and the Copper assets of Konkola Copper Mines were to be taken over by Sterlite, which we believed was negative for the minority shareholders of Sterlite Industries. Given the cancellation of the restructuring, we revise our SOTP-based target price to Rs540/share (Rs460/share previously) and revise our rating to REDUCE from Sell previously. However, weak commodity prices would put pressure on earnings going forward, which have also been mitigated to an extent by the weak Indian Rupee.

**Proposed restructuring cancelled**

The management of SIL believes that in the interest of 'changes in global financial markets and investor feedback' it has decided not to pursue the proposed restructuring plan announced earlier. The proposed restructuring has been discussed in detail in our earlier note dated Sep 10, 2008, following which we downgraded the stock to SELL. We view the new announcement positively and revise our target price and rating on the stock to Rs540/share. While ideally, the stock price should trade at its pre-restructuring price of Rs600/share, global peers have de-rated significantly during the past two weeks.

**We value Sterlite at Rs540/share based on SOTP valuation**

Given the sharp correction in global commodity stocks, we value the various businesses of Sterlite at 4X FY2010E EV/EBITDA—in line with global peers. We value the stake in subsidiaries after applying a 20% holding company discount.

**Commodity prices will likely remain under pressure**

Aluminum prices have weakened significantly over the past few months and are now down by 24% since the peak of US\$3,341 in mid-July. A stronger US dollar, lower oil prices, weakening demand, and higher aluminum inventories have all helped in lowering prices. In fact, prices have reached a level where production cutbacks especially for the marginal Chinese aluminum producers, which are operating at US\$2,650/ton - US\$2,750/ton cannot be ruled out, lending downside support.

Zinc prices have continued to lag over the past several months with prices persistently drifting downwards. Zinc prices have been holding steady at US\$1,750/ton off late, which will likely move downwards given weak fundamentals. According to CRU estimates, the first-half refined zinc market saw a surplus of 133,000 tons (on a former-Western world basis) to be followed by an even greater second-half surplus of 240,000 tons. We believe that this surplus scenario would persist and will further pressure zinc prices. Recent mine closures will likely provide downside support in the long term.

**SOTP-based target price of Sterlite Industries is Rs540/share**

SOTP-based target price of Sterlite, March fiscal year-ends, 2010E basis (Rs mn)

	<b>EBITDA</b> <b>(Rs bn)</b>	<b>Multiple</b> <b>(X)</b>	<b>EV</b> <b>(Rs bn)</b>	<b>Sterlite's stake</b> <b>(%)</b>	<b>Attributable EV</b> <b>(Rs bn)</b>	<b>EV</b> <b>(Rs/ share)</b>
Hindustan Zinc	39	4.0	154	64.9	100	113
Bharat Aluminium	18	4.0	72	51.0	37	41
Sterlite (copper business)	8	4.0	33	100.0	33	46
Vedanta Alumina (b)	11	4.0	45	29.5	13	15
Copper Mines of Tasmania (a)						22
Sterlite energy (c)					65	73
<b>Total Enterprise Value</b>					<b>248</b>	<b>311</b>
Net debt / (cash)					(160)	(226)
<b>Attributable market capitalization</b>					<b>408</b>	<b>537</b>
<b>Target price (Rs/ share)</b>						<b>540</b>

Notes:

- (a) Copper Mines of Tasmania has been valued on DCF basis, as the mine-life is only 6 years.
- (b) EBITDA of Vedanta Alumina enhanced to reflect income tax exemptions.
- (c) We have valued investments in Sterlite energy 3X book.
- (d) Acquisition of residual stake in Hindustan Zinc is assumed to be at market value to the extent of government holding.
- (e) We have applied holding company discount of 20% in case of stake in Hindustan Zinc, BALCO, Vedanta Alumina, Sterlite Energy and CMT.

Source: Kotak Institutional Equities

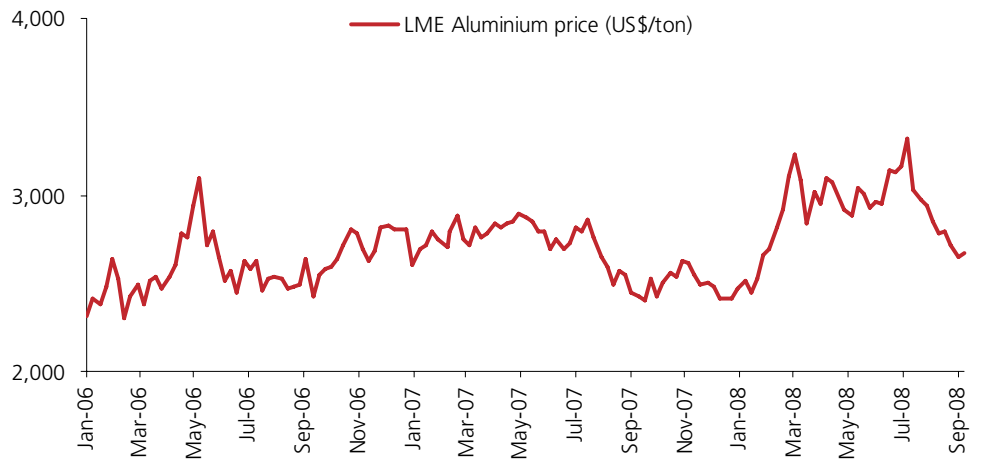
**Sterlite Industries (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2005-2010E (Rs mn)**

	2006	2007	2008	2009E	2010E	2011E
<b>Profit model (Rs mn)</b>						
Net sales	131,272	243,868	247,054	236,440	246,458	262,126
<b>EBITDA</b>	<b>36,899</b>	<b>94,589</b>	<b>78,682</b>	<b>60,584</b>	<b>66,452</b>	<b>79,473</b>
Other income	3,343	6,817	15,661	10,626	12,171	13,028
Interest	(2,353)	(3,791)	(3,186)	(3,990)	(3,537)	(3,113)
Depreciation	(5,269)	(8,039)	(5,950)	(10,037)	(12,053)	(14,573)
<b>Profit before tax</b>	<b>32,518</b>	<b>88,004</b>	<b>84,679</b>	<b>57,183</b>	<b>63,034</b>	<b>74,818</b>
Taxes	(10,165)	(24,118)	(21,027)	(10,932)	(12,046)	(15,105)
Less: Minority interest	(5,568)	(19,045)	(18,591)	(14,647)	(16,129)	(19,241)
Add: share in associates	(4)	—	—	1,889	1,174	1,174
<b>Net profit</b>	<b>16,781</b>	<b>44,842</b>	<b>45,061</b>	<b>33,493</b>	<b>36,032</b>	<b>41,646</b>
<b>Earnings per share (Rs)</b>	<b>60.3</b>	<b>82.3</b>	<b>64.2</b>	<b>47.3</b>	<b>50.9</b>	<b>58.8</b>
<b>Balance sheet model (Rs mn)</b>						
Equity	60,530	99,815	223,024	239,008	262,451	291,355
Deferred tax liability	7,511	9,174	13,537	15,020	19,362	23,898
Total Borrowings	68,822	82,365	106,981	112,950	127,959	145,980
Current liabilities	34,113	48,636	50,401	32,842	33,179	33,775
<b>Total liabilities</b>	<b>170,976</b>	<b>239,990</b>	<b>393,942</b>	<b>399,820</b>	<b>442,951</b>	<b>495,009</b>
Net fixed assets	85,497	97,176	124,367	138,640	149,287	150,214
Investments	24,952	52,219	162,941	140,758	140,758	140,758
Cash	11,153	11,134	24,536	30,634	58,731	106,640
Other current assets	49,269	79,460	82,099	89,788	94,176	97,397
Miscellaneous expenditure	105	—	—	—	—	—
<b>Total assets</b>	<b>170,976</b>	<b>239,990</b>	<b>393,942</b>	<b>399,820</b>	<b>442,952</b>	<b>495,009</b>
<b>Cash flow model (Rs mn)</b>						
Operating cash flow excl. working capital	28,131	75,568	61,736	56,242	63,888	75,498
Working capital changes	(8,339)	(18,647)	2,032	1,416	(4,050)	(2,626)
Capital expenditure	(11,783)	(20,871)	(30,119)	(32,950)	(22,700)	(15,500)
<b>Free cash flow</b>	<b>8,009</b>	<b>36,049</b>	<b>33,648</b>	<b>24,707</b>	<b>37,138</b>	<b>57,372</b>
<b>Ratios</b>						
Debt/equity (%)	101.1	75.6	45.2	44.5	45.4	46.3
Net debt/equity (X)	0.2	(0.2)	(0.6)	(0.5)	(0.6)	(0.7)
RoAE (%)	28.9	50.7	26.1	13.7	13.4	14.0
<b>RoACE (%)</b>	<b>14.7</b>	<b>29.0</b>	<b>17.7</b>	<b>10.3</b>	<b>10.0</b>	<b>10.1</b>

Source: Company, Kotak Institutional Equities estimates.

**Aluminum prices are down 25% from recent highs**

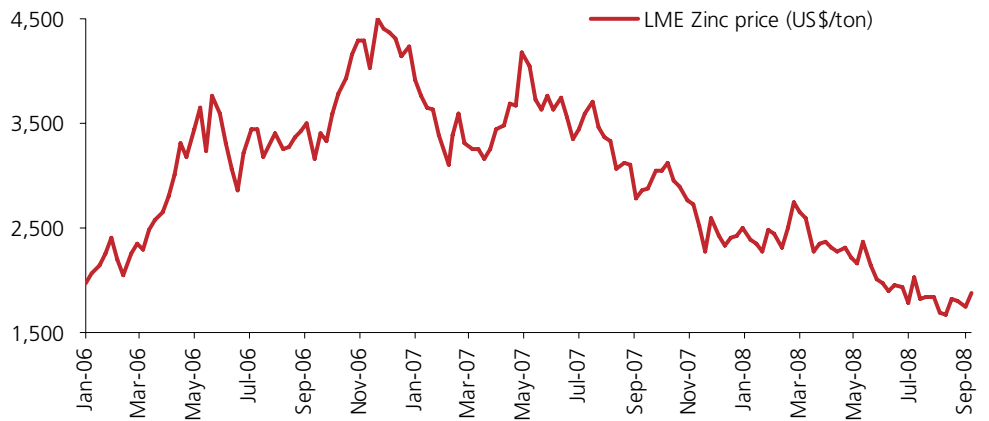
LME Aluminum price chart (US\$/ton)



Source: Bloomberg

**Zinc prices have come off sharply since its highs**

LME Zinc price chart (US\$/ton)



Source: Bloomberg





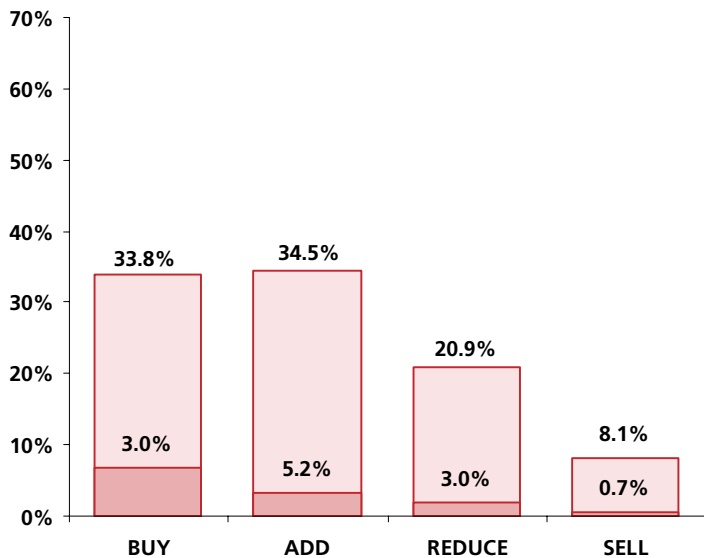




" Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Rahul Jain."

**Kotak Institutional Equities Research coverage universe**

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and/or its affiliates has provided investment banking services within the previous 12 months.

\* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 30/06/2008 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities

As of June 30, 2008

**Ratings and other definitions/identifiers**

**Rating system**

Definitions of ratings

- BUY.** We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.
- ADD.** We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.
- REDUCE:** We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.
- SELL:** We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

Our target price are also on 12-month horizon basis.

Other definitions

**Coverage view.** The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive (A), Neutral (N), Cautious (C).

Other ratings/identifiers

- NR = Not Rated.** The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.
- CS = Coverage Suspended.** Kotak Securities has suspended coverage of this company.
- NC = Not Covered.** Kotak Securities does not cover this company.
- RS = Rating Suspended.** Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
- NA = Not Available or Not Applicable.** The information is not available for display or is not applicable.
- NM = Not Meaningful.** The information is not meaningful and is therefore excluded.

**Corporate Office  
Kotak Securities Ltd.**

Bakhtawar, 1st Floor  
229, Nariman Point  
Mumbai 400 021, India  
Tel: +91-22-6634-1100

**Overseas Offices****Kotak Mahindra (UK) Ltd.**

6th Floor, Portsoken House  
155-157 The Minories  
London EC 3N 1 LS  
Tel: +44-20-7977-6900 / 6940

**Kotak Mahindra Inc.**

50 Main Street, Suite No.310  
Westchester Financial Centre  
White Plains, New York 10606  
Tel: +1-914-997-6120

Copyright 2008 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund. Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMIInc). However KMIInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.

**Kotak Securities Ltd.**

Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400 021, India.

Tel: +91-22-6634-1100 Fax: +91-22-2288-6453