

⊙ Action

Sterlite shares have corrected 30% over the past four months vs the SENSEX's 1.7% gain during the same period, mainly due to Vedanta's proposed acquisition of Cairn India and VAL's failure to secure a mining license at Niyamgiri. We believe the market has over-reacted, as Sterlite only has a minority stake in VAL and is not involved in the Cairn acquisition. We upgrade to BUY with a revised PT of INR199.

⚡ Catalysts

Any government decision on the sale of its remaining stakes in Hindustan Zinc and Balco, and metal prices are potential share-price catalysts.

⚓ Anchor themes

Hindustan zinc and power business along with cash and investments account for 90% of total value for the company. At the same time with 2400MW power plant starting by end FY11, there will be strong earning growth for the company in FY12. This will also reduce dependence of Sterlite's earnings on zinc business.

Opportunity after turbulence

① Zinc and power the key – VAL too small to impact

Sterlite derives close to 90% of its value from its stakes in Hindustan Zinc, Sterlite Energy, and cash and equivalents, with the aluminium business contributing just 5-7% – Vedanta Aluminium (VAL) accounts for only INR7mn (3.5% of total value). Hence, we believe an 8-10% correction in the stock price due to VAL's failure to secure a mining license to access Niyamgiri mines is unwarranted. Sterlite only has a 29.5% stake in VAL, and the market already knew VAL's mining issues. In our opinion, the correction in Sterlite share prices provides a buying opportunity.

② Sterlite not involved in Cairn acquisition

News of the proposed Cairn acquisition by Vedanta has also caused Sterlite shares to correct sharply, amid concerns that Vedanta might use Sterlite as a vehicle for the acquisition. However, as Sterlite is not involved in the deal, we believe the sharp fall in Sterlite share prices is not warranted.

③ Zinc prices to stabilise – power units to start production

We expect Zinc prices to start stabilising within US\$1,900-2,000/t despite higher inventory. Zinc prices have recovered to US\$2,000/t after correcting from the peak of US\$2,500/t to US\$1,650/t. In our view, this should aid Sterlite's earnings outlook, as we estimate its zinc business will contribute close to 50% of total profit in FY12F. Meanwhile, Sterlite Energy will commission its 2,400MW power plant in the next two to three quarters, which should start to generate profits by FY12F.

④ Earning growth to continue in FY12F

The commissioning of power plants, alongside Hindustan Zinc's production ramp-up and stabilising metal prices, are likely to strengthen Sterlite's earnings in FY12F. Sterlite trades at 8.8x FY12F consolidated EPS of INR18.2. Upgrade the stock to BUY with a revised PT of INR199.

Closing price on 27 Aug	Rs152.1
Price target	Rs199.0 (from Rs221.0)
Upside/downside	30.9%
Difference from consensus	-10.0%
FY12F net profit (Rsmn)	61,079
Difference from consensus	-16.5%
Source: Nomura	

Nomura vs consensus

We are cautious on metal prices at current levels. Key difference from consensus is our metal price assumptions.

Key financials & valuations

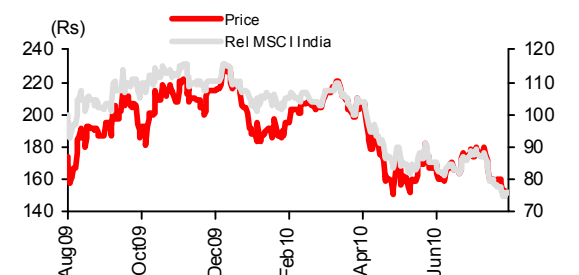
31 Mar (Rsmn)	FY10	FY11F	FY12F	FY13F
Revenue	244,103	262,996	344,876	382,147
Reported net profit	37,437	31,453	61,079	67,913
Normalised net profit	40,407	31,453	61,079	67,913
Normalised EPS (Rs)	48.08	9.36	18.17	20.20
Norm. EPS growth (%)	(2.2)	(80.5)	94.2	11.2
Norm. P/E (x)	3.2	16.3	8.4	7.5
EV/EBITDA (x)	9.3	9.1	5.4	4.4
Price/book (x)	0.3	1.3	1.2	1.1
Dividend yield (%)	3.3	0.8	0.8	0.8
ROE (%)	12.0	8.1	14.5	14.8
Net debt/equity (%)	16.0	17.1	15.1	4.9

Earnings revisions

Previous norm. net profit	42,940	73,665	86,121
Change from previous (%)	(26.8)	(17.1)	(21.1)
Previous norm. EPS (Rs)	12.90	22.13	25.88

Source: Company, Nomura estimates

Share price relative to MSCI India



	1m	3m	6m
Absolute (Rs)	(13.7)	(5.6)	(22.2)
Absolute (US\$)	(14.3)	(6.6)	(23.6)
Relative to Index	(12.4)	(12.1)	(29.1)
Market cap (US\$m)			10,898
Estimated free float (%)			48.0
52-week range (Rs)			229.4/151.7
3-mth avg daily turnover (US\$m)			38.52
Stock borrowability			Hard
Major shareholders (%)			
Vedanta			52.0

Source: Company, Nomura estimates

**Any authors named on this report are research analysts unless otherwise indicated.
See the important disclosures and analyst certifications on pages 12 to 15.**

Drilling down

Recent correction an opportunity to BUY

Sterlite shares have corrected 30% over the past four months, due to: 1) a sharp correction in metal prices; 2) Vedanta's announcement to purchase a stake in Cairn India, which raised concerns that the transaction would be carried out through Sterlite, and 3) news that the Indian environmental ministry has denied VAL the approval for bauxite mining at Niyamgiri.

We believe the market has over-reacted to the Vedanta-Cairn deal and the loss of mining assets at Niyamgiri. In our opinion, the fundamentals of Sterlite remain unchanged. The company is not involved in the Cairn India acquisition. In addition, its aluminium business is not a major value contributor – 51%-owned Balco accounts for only 5-7% of the company's total value while 29.5%-owned VAL accounts for merely 3-4%. The market is largely aware of the problems at Niyamgiri mines and has not built in major upside in Sterlite's share prices from this mining project. As such, we believe the recent share-price correction provides an opportunity to invest at attractive valuations.

Note that we have not built in any value creation from its acquisition of Anglo American's zinc assets. However, we have built in conservative estimates for Sterlite Energy. We assume zinc prices to hover between US\$1,900/t and US\$2,000/t, slightly below current prices. We upgrade the stock to BUY from Neutral, but reduce our price target to INR199 from INR221 previously to account for lower metal prices and delays in Sterlite's power projects.

Expansion plans near completion – strong earnings growth in FY12F

Sterlite's expansion plans at different locations are near completion with phased commissioning slated to start in the next one to two quarters.

- While the company has already commissioned 210KT zinc expansion, the 100KT lead expansion will be commissioned only in 2QFY11, according to management.
- Sterlite Energy will commission its 2,400MW power capacity in FY11. The first unit with a capacity of 600MW was already commissioned in 1QFY11.
- VAL, 29.5% owned by Sterlite, has commissioned 536 pots out of 608 pots, which are supported by 1,215MW (9x135MW) captive power plants and have a cumulative aluminium smelting capacity of 500KT.
- Balco's (51% owned by Sterlite) capacity expansion of 325KT is also on schedule and is likely to commence in phases starting the end of this year.

Given the above-mentioned capacity expansion plans/phases, we believe Sterlite's consolidated EPS will almost double to INR18.2 in FY12F from INR9.4 in FY11F.

Delays in VAL's operations to enable higher power sales on spot markets

Sterlite, at its previous conference call, indicated that its first 600MW of power will be sold to state grid at INR2.5/unit. At the same time, a significant proportion of the remaining 1,800MW, which will come online by end-FY11, will be sold to VAL for at least four to five years. This suggests limited power available for sale on a merchant basis.

However, as VAL has failed to secure bauxite mining licenses at Niyamgiri, there will be delays in VAL's expansion plans. Therefore, the proposed power sale to VAL will be limited, enabling Sterlite to sell the 'freed-up' power in spot markets. While we believe that spot rates will gradually align with contract rates as more capacity comes online, we still believe there is potential opportunity in the next three to four years for the company to book higher profits in the spot markets. With the delays in VAL's projects, we expect Sterlite's power business to tab on this opportunity.

Fundamentals of Sterlite remain strong, in our opinion. We believe the recent share-price correction provides an opportunity to invest at attractive valuations

We believe Sterlite's consolidated EPS will almost double to INR18.2 in FY12F from INR9.4 in FY11F

Please see the table below for our assumption of sale on a merchant basis.

Exhibit 1. Breakdown of power sales of Sterlite Energy

(Mega Watt)	FY11F	FY12F	FY13F	FY14F	FY15F
Sale to Gridco	600	600	600	600	600
Sale to VAL	-	800	1,000	1,000	1,000
Merchant sale	-	1,000	800	800	800

Source: Nomura estimates

To account for the delays in the commissioning of power plants, we reduce our valuation of Sterlite's power business to INR98bn from INR116bn previously. We list our key assumptions in the table below.

Exhibit 2. Sterlite Energy - key details

	FY11F	FY12F	FY13F	FY14F
Total power sales (MW)	600	2,400	2,400	2,700
Total power sales (mn units)	4,467	17,868	17,868	20,101
Power rate (INR/unit)				
State Grid/VAL	2.50	2.53	2.55	2.58
Merchant sales	5.0	4.5	4.3	4.0
Coal cost (INR/unit)	1.04	1.08	1.12	1.16
EBITDA (INRmn)	5,349	35,615	30,518	31,667
Net profit (INRmn)	-5,220	19,799	15,467	5,671

Source: Nomura estimates

Exhibit 3. Sterlite Energy - sensitivity analysis for FY12F earnings

		Merchant power rate (INR/unit)					
		3.5	4.0	4.5	5.0	5.5	6.0
Power sold on merchant basis (MW)	1300	15,428	19,444	23,461	27,477	31,494	35,510
	1000	13,620	16,710	19,799	22,889	25,979	29,068
	800	12,415	14,887	17,359	19,830	22,302	24,774
	600	11,210	13,064	14,918	16,772	18,625	20,479
	400	10,005	11,241	12,477	13,713	14,949	16,185
	200	8,801	9,418	10,036	10,654	11,272	11,890

Source: Company data, Nomura estimates

As illustrated in the table above, every INR0.5/unit increase in merchant rates will raise Sterlite's FY12F earnings by INR3.09bn and every 100MW rise in sales on a merchant basis will raise its FY12F earnings by INR600mn.

In terms of valuations, every INR0.5/unit increase in merchant rates will raise our valuation by INR23bn (close to 25%). Similarly, for every 100MW extra sales on a merchant basis, our valuation will go up by close to INR720mn.

Exhibit 4. Sterlite Energy - sensitivity analysis for our valuation

		Merchant power rate (INR/unit)					
		3.50	4.00	4.25	5.00	5.50	6.00
Power sold on merchant basis (MW)	1,300	74,016	95,104	105,648	137,280	158,368	179,456
	1,050	72,340	92,029	101,873	131,406	151,095	170,783
	800	70,664	88,954	98,098	125,532	143,822	162,111
	550	68,988	85,878	94,324	119,659	136,549	153,439
	300	67,313	82,803	90,549	113,785	129,275	144,766
	200	66,642	81,573	89,039	111,435	126,366	141,297

Source: Company data, Nomura estimates

Hindustan Zinc to see continued volume growth in FY12F – further growth to come from acquisition

Hindustan Zinc has shown strong volume growth over the past five to six years, recording a CAGR of 23% over FY05-11F. We expect volume growth to continue in FY12F on ramped-up production from the 210KT capacity expansion facility completed in FY11. We also expect lead volume to increase in FY12F with the 110KT smelting capacity expansion. Although we do not expect major organic volume growth in zinc and lead after FY12F, we expect further volume growth to come from the acquisition of Anglo American's zinc assets in South Africa.

We have treated the acquisition of Anglo American Assets as a neutral value transaction, although it is EPS accretive at current zinc prices.

Zinc-Lead prices stabilising after recent volatility

Zinc prices have traded highly volatile, coming off from the peak of US\$2,500/t in April to US\$1,650/t in July before recovering to US\$2,000/t now. However, we expect prices to remain within US\$1,900-2,000/t in FY11F and FY12F. We estimate that close to 16% of Hindustan Zinc's earnings growth in FY12F will come from higher sales volume of lead, zinc and silver along with stable metal prices.

Exhibit 5. FY12F EPS sensitivity to Zinc-Lead prices (US\$/t)

		Zinc prices						
		1,700	1,800	1,900	1,950	2,000	2,100	2,200
Lead prices	1,700	89.1	95.5	102.0	105.2	108.5	115.0	121.4
	1,800	89.9	96.4	102.9	106.1	109.4	115.8	122.3
	1,900	90.8	97.3	103.8	107.0	110.3	116.7	123.2
	2,000	91.7	98.2	104.7	107.9	111.1	117.6	124.1
	2,100	92.6	99.1	105.6	108.8	112.0	118.5	125.0
	2,200	93.5	100.0	106.4	109.7	112.9	119.4	125.9
	2,300	94.4	100.9	107.3	110.6	113.8	120.3	126.7

Source: Company data, Nomura research

Niyamgiri mines – a major setback for aluminium operations

In terms of timely project completion and costs, we believe Sterlite has fared well although its 29.5%-owned VAL is encountering problems in acquiring mines. With environmental clearance now denied to VAL by the Indian government, we believe it will take time for VAL to get another mine as agreed with the Orissa government.

Due to delays in mining at Niyamgiri, VAL has to purchase bauxite. As a result, the cost of producing alumina and aluminium for VAL remains in excess of US\$300/t and US\$1,800/t, respectively, compared to Balco's cash production cost of US\$1,750-1,800/t for aluminium. Previously, Sterlite had expected costs at VAL to come down to US\$1,000/t with the commencement of mining at Niyamgiri. Now we estimate the delays should keep its production costs at US\$1,400-1,500/t even after its operations stabilise.

Business update

We revise our FY11F-13F earnings estimates for Sterlite to account for higher metal prices and production estimates. Please find below an update on its various businesses:

Zinc business (Hindustan Zinc – 64.9% stake)

Sterlite has zinc exposure via its 64.9%-owned Hindustan Zinc (HZ IN, NEUTRAL). We have cut our zinc price estimates from US\$2,050/t to US\$1,900/t for FY11F and from US\$2,070/t to US\$1,950/t for FY12F, in line with our European metal and mining team's forecasts. As a result, our net profit estimates drop to INR39bn (from INR46bn)

for FY11F and to INR45.2bn (from INR53bn) for FY12F. Please see the table below for further details:

Exhibit 6. Hindustan Zinc - Key details

Sales volume	FY09	FY10	FY11F	FY12F
Zinc (tonnes)	552,330	577,685	707,574	789,472
Lead (tonnes)	60,564	64,391	72,343	92,343
Silver (KG)	103,125	139,130	190,000	225,000
Zinc prices (US\$/tonne)	1,500	1,900	1,900	1,950
Lead prices (US\$/tonnes)	1,650	2,000	1,900	1,900
Sulphuric acid (INR/tonne)	4,932	981	2,000	2,000
EBITDA (INRmn)	27,342	46,701	44,326	50,160
Net profit (INRmn)	27,276	40,414	39,050	45,214
Previous estimates				
Zinc (tonnes)	552,330	585,048	756,600	828,384
Lead (tonnes)	60,564	63,339	76,007	106,007
Silver (KG)	103,125	132,000	190,000	225,000
Zinc prices (US\$/tonne)	1,500	1,900	2,050	2,070
Lead prices (US\$/tonnes)	1,650	2,150	2,100	2,100
Sulphuric acid (INR/tonne)	4,932	850	1,500	2,000
EBITDA (INRmn)	27,342	46,699	51,461	58,569
Net profit (INRmn)	27,276	40,412	45,972	52,955

Source: Company data, Nomura estimates

Balco (51% stake)

Sterlite's aluminium business is held through its 51% stake in Balco (unlisted) and 29.5% stake in VAL (unlisted). Since Sterlite is a minority shareholder of VAL, we have included earnings from VAL through share of associates.

On account of higher production costs, we raise our EBITDA estimates to INR7.43bn (from INR9.5bn) for FY11F and to INR14.9bn (from INR20bn) for FY12F. In 1QFY11, Balco reported cash cost of production at around US\$1,750-1,800/t. Earlier, we had expected alumina prices for Balco to come down to US\$200-250/t from FY12F; however, we are now building in US\$350/t of alumina prices. This is the key reason for the fall in our EBITDA numbers.

Exhibit 7. Balco - Key details

	FY09	FY10	FY11F	FY12F
Aluminium sales volume (tonnes)	356,513	267,802	270,000	341,250
Power sales (mn units)	320	1,354	1,011	3,344
Aluminium prices (US\$/tonne)	2,200	1,800	2,088	2,100
EBITDA (INRmn)	7,952	7,472	7,427	14,896
Net profit (INRmn)	5,173	5,360	2,445	1,663
Previous estimates				
Aluminium sales volume (tonnes)	356,513	265,709	265,000	380,000
Power sales (mn units)	320	1,610	1,694	3,349
Aluminium prices (US\$/tonne)	2,200	1,800	2,088	2,100
EBITDA (INRmn)	7,662	7,471	9,528	20,005
Net profit (INRmn)	5,174	2,310	4,049	4,114

Source: Company data, Nomura estimates

Standalone copper business (100%)

Sterlite's copper business consists of pure smelting operations. It also has copper mines in Tasmania with an annual production close to 28,000 tonnes and mine life of five to six years. We expect an EBITDA of INR6.2bn in FY11F and INR6.9bn in FY12F from the standalone business. We expect treatment and refining charges to remain at close to 15 cents/lb and acid prices at close to INR2,000/tonne in FY11F-12F.

Vedanta Aluminium (VAL) (29.5%)

We reduce our earnings estimates for VAL (unlisted) primarily on account of the loss of mining assets. Vedanta is dependent on external purchases of Bauxite for operations. This has resulted in higher costs of close to US\$100/tonne of alumina. We estimate an EBITDA of close to INR14.2bn in FY11F and INR34.3bn in FY12F, down from earlier estimates of INR19.6bn and INR46.6bn.

Exhibit 8. Vedanta aluminum - key details

	FY10	FY11F	FY12F	FY13F
Alumina production (tonnes)	762,000	1,262,000	2,400,000	4,750,000
Aluminium sales volume (tonnes)	264,000	476,250	844,500	1,400,000
Alumina sales volume (tonnes)	234,000	309,500	711,000	1,950,000
Aluminium cost of production (US\$/tonne)	1,650	1,700	1,500	1,500
EBITDA (INRmn)	6,652	14,196	34,381	60,467
Net profit (INRmn)	2,034	225	441	9,821
Previous estimates				
Alumina production (tonnes)	762,000	1,262,000	2,400,000	4,750,000
Aluminium sales volume (tonnes)	264,000	476,250	905,500	1,400,000
Alumina sales volume (tonnes)	234,000	309,500	589,000	1,950,000
Aluminium cost of production (US\$/tonne)	1,650	1,500	1,400	1,400
EBITDA (INRmn)	7,532	19,596	46,557	70,466
Net profit (INRmn)	2,034	4,275	9,574	15,800

Source: Company data, Nomura estimates

Earnings estimates

As a result of these changes, our consolidated net profit numbers now stand at INR31.5bn (from INR42.9bn) for FY11F and INR61.1bn (from INR73.7bn) for FY12F.

Exhibit 9. Consolidation of earnings

(INRmn)	FY09	FY10	FY11F	FY12F
Hindustan Zinc	17,702	26,229	25,344	29,344
% contribution	50.0%	70.1%	80.6%	48.0%
Balco	2,638	2,734	1,247	848
% contribution	7.5%	7.3%	4.0%	1.4%
Sterlite standalone	12,364	8,315	10,015	10,957
% contribution	34.9%	22.2%	31.8%	17.9%
Sterlite energy	0	-3,919	-5,220	19,799
% contribution	0.0%	-10.5%	-16.6%	32.4%
Total	35,400	37,437	31,453	61,079
EPS* (INR)	50.0	44.5	9.4	18.2
Previous estimates				
Hindustan Zinc	17,702	26,227	29,836	34,368
% contribution	50.00%	70.10%	69.50%	46.70%
Balco	2,639	1,178	2,065	2,098
% contribution	7.40%	3.10%	4.80%	2.80%
Sterlite standalone	12,364	8,315	10,178	11,386
% contribution	34.90%	22.20%	23.70%	15.50%
Sterlite energy	0	-3,919	-400	22,989
% contribution	0.00%	-10.50%	-0.90%	31.20%
Total	35,428	37,437	42,940	73,665

Source: Company data, Nomura estimates * EPS fall in FY11 due to 1:1 stock split and bonus

Valuation

Value emerges after recent volatility

We upgrade Sterlite Industries to BUY from Neutral with a revised target price of INR199. We list below our key reasons for the upgrade.

Upgrade to BUY, revised price target of INR199

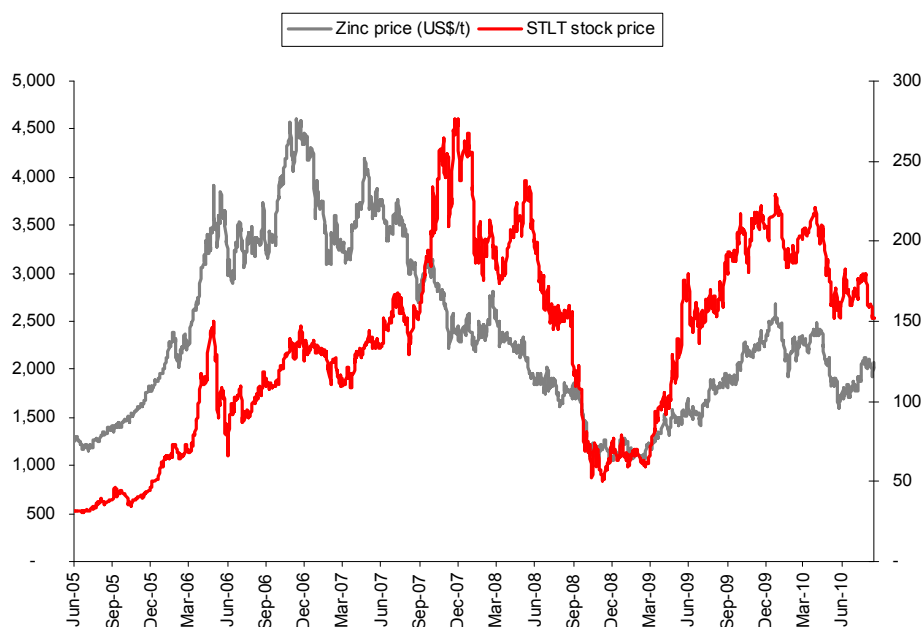
- **Attractive valuations and strong earning growth:** Sterlite is currently trading at 8.8x FY12F consolidated EPS of INR18.2 and 1.3x FY11F P/B. With earnings from the power business to start contributing from FY12F and capacity expansions nearing completion, we believe the stock is undervalued at current levels.
- **Limited impact from Niyamgiri mine rejection:** As discussed above, VAL's accounts for only 3-4% of Sterlite's valuation. As such, a correction of 8-10% in the stock price on account of the mining issues is an over-reaction, in our view.
- **Stabilising metal prices after recent weakness:** We believe metal prices will stabilise after recent upheavals. This will give more visibility to Sterlite's earnings growth for FY12F with the power business slated to start production soon.

Exhibit 10. Details on sum of parts valuation of Sterlite

Entity	Value of entity (INRmn)	Sterlite's Stake (%)	Discount (%)	Now		Previous	
				Value to Sterlite's stake (INRmn)	Per share	Value to Sterlite's stake (INRmn)	Per Share
Hindustan Zinc	485,961	64.9	0	315,389	94	357,238	107
Balco	73,796	51	0	37,636	11.2	41,229	12.3
Vedanta Alumina	102,333	29.5	17	25,056	7.5	30,827	9.2
Sterlite core copper business	17,718	100	0	17,718	5.3	25,869	7.7
Cash and Equiv - including loans and advances to subsidiaries	174,390	100	0	174,390	52	164,353	49
Sterlite Energy	98,333	100	0	98,333	29	115,935	35
Total value				668,521	199	735,451	221
Target price (INR)	199						

Source: Company data, Nomura estimates

Exhibit 11. Sterlite stock price vs zinc prices



Source: Bloomberg

Details on valuation

We value Sterlite on a sum-of-the-parts basis:

- We value Hindustan Zinc at 10x FY12F core earnings and add FY10 end cash and equivalent of INR118.7bn to arrive at a total valuation of INR486bn. Sterlite's 64.9% stake is valued at INR315bn, contributing INR94/share. Zinc business contributes close to 47% of total value. Please note that P/E multiple of 10x is in line with historical average at which the stock has traded.
- Earlier we had valued the company at 10x FY12F core earnings and added the cash and equivalents of INR121bn to arrive at value of INR550bn. It contributed INR107/share to the price target of Sterlite.
- We value Sterlite's core copper business at 8x FY12F core profits. It contributes INR5.3/share to our price target. Earlier, we had valued it at INR7.5/share.
- Sterlite standalone at end-FY11F will have net cash and equivalents of INR174bn, contributing INR52/share to our price target. Please note that our earlier estimate of cash and equivalents for end-FY10F was INR164bn.
- We have valued Sterlite Energy at a total equity value of INR98bn using DCF. Earlier, we had valued it at INR116bn. The lower valuation is primarily on account of lower sales on a merchant basis.
- We value Balco at 5x FY12F EV/EBITDA. Balco contributes INR11.2/share to our price target. We had earlier valued Balco at 7x FY12F EV/EBITDA. The lower multiple is primarily on account of continued high production costs and no visibility of costs coming down.
- We value VAL at 5x FY12F EV/EBITDA. It contributes INR7.5/share to our price target. We had earlier valued Balco at 7x FY12F EV/EBITDA. The lower multiple is primarily on account of continued high production costs and no visibility of costs coming down due to issues at the Niyamgiri mine.

Key risks

- Lower power rates: We are working with merchant power rates of INR5/KWH and INR 4.5/KWH in FY11F and FY12F; respectively. Should the rates come in weaker, there could be some downside to our estimates.
- Weaker-than-expected metal prices: We expect zinc prices to remain in the range of US\$1,900-2,000/t, slightly lower than current prices. However, if zinc prices fall sharply, there can be a downside risk to our estimates.
- Foray into new fields: Sterlite's promoters – Vedanta Group has shown its inclination to go for major acquisitions in new fields and channel it through its subsidiaries. While we believe these acquisitions are value creative in the long term, there can be a short-term knee-jerk reaction to these deals. We believe given its history, investors should be prepared for this risk.

Exhibit 12. Relative valuation

Company Name	Ticker	Price (Local currency)	P/E (x)		P/B (x)		ROE (%)		Operating margin (%)		EV/EBITDA	
			CY11E/FY12E	CY11E/FY12E	CY11E/FY12E	CY11E/FY12E	CY11E/FY12E	CY11E/FY12E	CY11E/FY12E	CY11E/FY12E		
BHP BILLITON LTD	BHP AU	AUD	37	9.5	2.6	30.6	55.4	4.7				
RIO TINTO LTD	RIO AU	AUD	70	8.9	2.0	23.5	47.7	4.72				
SOUTHERN COPPER	SCCO US	USD	30	11.0	5.3	53.1	54.0	6.4				
VALE SA-PF A	VALE5 BZ	BRL	41	5.9	1.5	26.8	54.0	4.6				
GRUPO MEXICO-B	GMEXICOB IN	MXN	34	8.4	2.6	32.4	52.0	4.4				
SESA GOA LTD	SESA IN	INR	318	5.9	1.6	30.8	54.9	3.6				
VEDANTA RESOURCE	VED IN	GBP	18	2.5	0.7	37.6	41.7	2.1				
HINDUSTAN ZINC	HZ IN	INR	1044	9.8	1.7	17.3	51.2	7.0				
STERLITE INDUSTR	STLT IN	INR	151	8.3	1.2	14.0	31.5	5.4				
HINDALCO INDS	HNDL IN	INR	167	9.3	1.2	13.2	12.3	5.8				
NATIONAL ALUMIN	NACL IN	INR	397	18.0	2.1	11.6	30.0	12.7				

Source: Bloomberg, Nomura estimates

Prices as of 27 August

Financial statements

Income statement (Rsmn)					
Year-end 31 Mar	FY09	FY10	FY11F	FY12F	FY13F
Revenue	211,442	244,103	262,996	344,876	382,147
Cost of goods sold	(171,408)	(190,884)	(213,383)	(256,554)	(282,939)
Gross profit	40,035	53,220	49,613	88,323	99,209
SG&A					
Employee share expense					
Operating profit	40,035	53,220	49,613	88,323	99,209
EBITDA	47,041	60,718	63,326	107,594	119,774
Depreciation	(7,007)	(7,498)	(13,713)	(19,271)	(20,565)
Amortisation					
EBIT	40,035	53,220	49,613	88,323	99,209
Net interest expense	(3,973)	(3,424)	(13,007)	(16,565)	(17,456)
Associates & JCEs	(1,536)	588	66	130	2,897
Other income	21,543	19,594	19,998	22,677	25,065
Earnings before tax	56,069	69,978	56,670	94,565	109,715
Income tax	(8,550)	(12,330)	(10,313)	(16,801)	(19,272)
Net profit after tax	47,518	57,648	46,358	77,764	90,443
Minority interests	(12,671)	(17,241)	(14,905)	(16,685)	(22,530)
Other items	-	-	-	-	-
Preferred dividends					
Normalised NPAT	34,847	40,407	31,453	61,079	67,913
Extraordinary items	553	(2,970)	-	-	-
Reported NPAT	35,400	37,437	31,453	61,079	67,913
Dividends	(2,901)	(4,210)	(3,933)	(3,933)	(3,933)
Transfer to reserves	32,499	33,227	27,520	57,146	63,980
Valuation and ratio analysis					
FD normalised P/E (x)	3.1	3.2	16.3	8.4	7.5
FD normalised P/E at price target (x)	4.0	4.1	21.3	11.0	9.9
Reported P/E (x)	3.0	3.4	16.3	8.4	7.5
Dividend yield (%)	2.7	3.3	0.8	0.8	0.8
Price/cashflow (x)	2.0	na	45.4	6.4	5.7
Price/book (x)	0.4	0.3	1.3	1.2	1.1
EV/EBITDA (x)	11.6	9.3	9.1	5.4	4.4
EV/EBIT (x)	13.7	10.6	11.7	6.5	5.2
Gross margin (%)	18.9	21.8	18.9	25.6	26.0
EBITDA margin (%)	22.2	24.9	24.1	31.2	31.3
EBIT margin (%)	18.9	21.8	18.9	25.6	26.0
Net margin (%)	16.7	15.3	12.0	17.7	17.8
Effective tax rate (%)	15.2	17.6	18.2	17.8	17.6
Dividend payout (%)	8.2	11.2	12.5	6.4	5.8
Capex to sales (%)	25.3	28.3	(8.4)	6.7	2.7
Capex to depreciation (x)	7.6	9.2	(1.6)	1.2	0.5
ROE (%)	14.8	12.0	8.1	14.5	14.8
ROA (pretax %)	10.1	11.1	8.3	13.6	14.7
Growth (%)					
Revenue	(14.4)	15.4	7.7	31.1	10.8
EBITDA	(40.2)	29.1	4.3	69.9	11.3
EBIT	(45.0)	32.9	(6.8)	78.0	12.3
Normalised EPS	(23.6)	(2.2)	(80.5)	94.2	11.2
Normalised FDEPS	(23.6)	(2.2)	(80.5)	94.2	11.2
Per share					
Reported EPS (Rs)	50.0	44.5	9.4	18.2	20.2
Norm EPS (Rs)	49.2	48.1	9.4	18.2	20.2
Fully diluted norm EPS (Rs)	49.2	48.1	9.4	18.2	20.2
Book value per share (Rs)	361.5	440.4	119.7	130.1	143.1
DPS (Rs)	4.1	5.0	1.2	1.2	1.2

Source: Nomura estimates

Commissioning of 2400MW power capacity and capacity at Balco will drive earning growth.

Cashflow (Rsmn)

Year-end 31 Mar	FY09	FY10	FY11F	FY12F	FY13F
EBITDA	47,041	60,718	63,326	107,594	119,774
Change in working capital	12,437	(73,157)	(33,902)	(101)	747
Other operating cashflow	(4,635)	(15,782)	(18,160)	(27,244)	(31,296)
Cashflow from operations	54,844	(28,222)	11,264	80,249	89,225
Capital expenditure	(53,403)	(68,980)	22,107	(23,264)	(10,265)
Free cashflow	1,441	(97,202)	33,371	56,985	78,961
Reduction in investments	879	(40,983)	(51,291)	(40,000)	(30,000)
Net acquisitions					
Reduction in other LT assets					
Addition in other LT liabilities	539	1,449	(3,304)	-	-
Adjustments					
Cashflow after investing acts	2,860	(136,737)	(21,224)	16,985	48,961
Cash dividends	(2,042)	(3,021)	(3,021)	(3,021)	(3,021)
Equity issue	-	76,529	-	-	-
Debt issue	19,390	22,465	17,236	6,331	11,643
Convertible debt issue					
Others	10,305	19,093	14,587	(11,018)	(3,647)
Cashflow from financial acts	27,653	115,066	28,803	(7,708)	4,975
Net cashflow	30,513	(21,671)	7,578	9,277	53,936
Beginning cash	24,536	55,048	33,378	40,956	50,234
Ending cash	55,048	33,378	40,956	50,233	104,169
Ending net debt	15,087	59,222	68,880	65,934	23,641

Source: Nomura estimates

Balance sheet (Rsmn)

As at 31 Mar	FY09	FY10	FY11F	FY12F	FY13F
Cash & equivalents	55,048	33,378	40,956	50,234	104,169
Marketable securities					
Accounts receivable	8,760	5,709	7,123	8,028	9,135
Inventories	24,591	29,827	31,348	35,739	41,475
Other current assets	27,961	106,200	129,916	131,767	134,600
Total current assets	116,360	175,114	209,343	225,768	289,378
LT investments	162,062	203,045	254,336	294,336	324,336
Fixed assets	172,104	233,500	198,587	206,420	200,000
Goodwill					
Other intangible assets					
Other LT assets	-	-	-	-	-
Total assets	450,526	611,659	662,266	726,524	813,714
Short-term debt					
Accounts payable	31,655	38,107	30,741	36,893	46,143
Other current liabilities	10,397	11,212	11,326	12,221	13,394
Total current liabilities	42,051	49,319	42,067	49,114	59,536
Long-term debt	70,135	92,600	109,836	116,167	127,810
Convertible debt					
Other LT liabilities	14,076	15,524	12,220	12,220	12,220
Total liabilities	126,262	157,443	164,123	177,501	199,567
Minority interest	68,132	84,096	95,818	111,603	133,257
Preferred stock	-	-	-	-	-
Common stock	1,417	1,681	3,362	3,362	3,362
Retained earnings	56,069	69,978	56,670	94,565	109,715
Proposed dividends					
Other equity and reserves	198,646	298,462	342,293	339,494	367,814
Total shareholders' equity	256,132	370,120	402,325	437,420	480,891
Total equity & liabilities	450,526	611,659	662,266	726,524	813,714

Liquidity (x)

Current ratio	2.77	3.55	4.98	4.60	4.86
Interest cover	10.1	15.5	3.8	5.3	5.7

Leverage

Net debt/EBITDA (x)	0.32	0.98	1.09	0.61	0.20
Net debt/equity (%)	5.9	16.0	17.1	15.1	4.9

Activity (days)

Days receivable	21.0	10.8	8.9	8.0	8.2
Days inventory	61.6	52.0	52.3	47.9	49.8
Days payable	54.9	66.7	58.9	48.2	53.6
Cash cycle	27.7	(3.9)	2.3	7.6	4.4

Source: Nomura estimates

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Issuer	Ticker	Price (as at last close)	Closing Price Date	Rating	Disclosures
Sterlite Industries India Ltd	STLT IN	152.00 INR	27 Aug 2010	Neutral	

Previous Ratings

Issuer	Previous Rating	Date of change
Sterlite Industries India Ltd	Buy	30 Apr 2010

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