

Sterlite Industries (India) Ltd.

VISIT NOTE

Sensex: 12,236

CMP: Rs. 446/-

September 22, 2006

Sterlite Industries (India) Ltd. A subsidiary of Vedanta Resources

Sterlite Industries (India) Ltd. founded in 1976 is a subsidiary of Vedanta Resources plc, (Vedanta holds 76% stake in Sterlite) a diversified metals and mining company listed on the London Stock Exchange. Vedanta's business interests are in Copper, Aluminium and Zinc spread across India, Australia and Zambia. Vedanta has a turnover of US \$ 3.7 billion and a market cap of US \$ 7 billion.

Sterlite's key Businesses: Copper Zinc and Aluminium

With a capacity of 300,000 tonnes, Sterlite is the 2nd largest producer of copper. In addition, with a 65% stake in Hindustan Zinc Ltd, a 51% stake in Balco and a 30% stake in Vedanta Alumina Ltd, it has a dominant position in both Zinc and Aluminium. Although copper contributes 49% to the top-line, it only accounts for 23% of the operating profit. Zinc accounts for 68% of the operating profit of Sterlite.

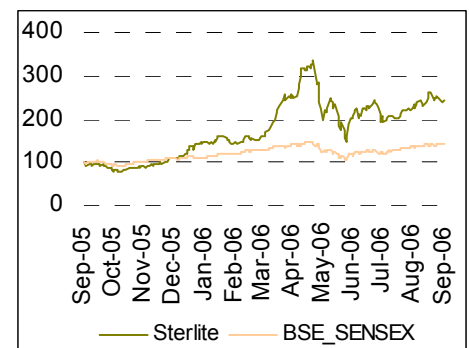
Sales (Rs. Mn.)	FY05	FY06
Copper	35119	69503.8
Aluminium	16987.2	26790
Zinc & Lead	24406.1	43261.8
Others	3136.4	3168.3
Total Sales	79648.7	142724
Operating Profit (Rs. Mn.)	FY05	FY06
Copper	3169.8	7420.8
Aluminium	1823.1	2847.6
Zinc & Lead	8038.1	21526.2
Others	-231.7	86.6
Total	12799	31881

Bloomberg Code	: STLT@IN
Reuters Code	: STRL.BO
BSE Code	: 500900
NSE Code	: STER
52-Week Range(H/L)	: 614 / 138
Market Cap (Rs.mn)	: 24,527
Shares O/S (mn)	: 55.87
Free Float (mn)	: 11.70
3m Avg. Volume	: 1,308,544
Face Value	: 2

Price Performance: (%)

	3m	6m	12m
Absolute	11	42	169
Relative	-7	30	120

Relative Price Movement



Financial Summary (Consolidated)	FY04	FY05	FY06
Net Sales (Rs. Mn.)	57149	72525	131272
PAT (Rs. Mn.)	464	652	1678
EPS (Rs.)	8.31	11.67	30.04
EPS Growth (%)		40	158
CEPS (Rs.)	16.63	21.70	49.44
EBITDA margin	22	19	26
RONW (%)	43	30	43
PER (x)	30.24	12.26	11.65
P/BV (x)	8.23	1.84	3.22
EV/Sales	0.64	1.56	1.62
EV/EBITDA	2.93	8.06	6.28

A. Copper: One of the lowest refining and smelting cost

Sterlite's increased its capacity from 165,000 tonnes in FY05 to 300,000 tonnes in FY06. It plans to further increase its capacity to 400,000 tonnes through debottlenecking by the end of this year. It has its own captive mines to source copper concentrate in Australia which is a 100% subsidiary of Sterlite.

Copper (tonnes)	FY05	FY06
Capacity	165,000	300,000
Production	171,992	273,048
Concentrate Production		
Copper Mine of Tasmania (CMT)	98,141	105,690
Tharanga Copper Mine	47,843	21,506

It sources about 11% of its copper concentrate through its own mines, 67% through long term contracts and the remaining in the spot markets. At 6 cents/lbs, it has one of the cheapest refining and smelting costs. The contracted TC/RC margin has been rising, which augurs well for Sterlite. Its TC/RC margins increased from 8.7 cents/lbs in FY05 to 23 cents/lbs to FY06.

B. Zinc

HZL is the market leader in the domestic zinc industry with a market share of nearly 70%.

Capacities (tonnes)	FY05	FY06
Zinc	169,000	400,000
Lead	43,000	85,000
Production (tonnes)		
Zinc	265,924	317,558
Lead	15,727	23,636
Zinc and Lead Reserves (mn tons)		
Rampura Agucha		48.58
Rajpura Dariba		9.95
Zawar		5.83
Total		64.36

It has a mining capacity of about 6 million to produce zinc/lead concentrate, smelter capacity of nearly 400,000 tonnes and a 183 MW power plant. HZL captures the entire gamut of the value chain: from ore to zinc ingots. HZL is in the process of increasing its zinc capacities to 625,000 through debottlenecking (50,000 tonnes) and brown-field expansion in Chanderiya (170,000 tonnes) by FY08. After the expansion, the cash costs of manufacturing zinc ingot would be USD 500 per tonne.

C. Aluminium

Sterlite has exposure to the Aluminium business through its 51% stake in Balco. The management indicated that they are confident of acquiring the remaining 49% from the government. Sterlite recently expanded its capacity at Balco from 100,000 tonne to 350,000.

Balco (tonnes)	FY05	FY06
Capacity	100,000	350,000
Production	100,277	173,732
Power (MW)		540
Bauxite Reserves (mn tonnes)		11.7

There has been considerable improvement in operational efficiencies at Balco after the acquisition by Sterlite. The cost reduced from USD 1650 per tonne (at the time of acquisition) to USD 1490 in 2006.

Vedanta Alumina Ltd. (VAL)

VAL is a green-field refining and smelting venture in Orissa promoted by Vedanta (70% ownership) with Sterlite holding 30% stake in the company. The refining capacity will be 1.4 million tonnes whereas the smelting capacity will be 500,000. It will also have a power plant of 1215 MW. The refining capacity is expected to be commissioned in Q3FY07. The smelter is expected to be commissioned by middle of 2009 (FY10). This will meet the entire alumina requirement for both Balco and VAL. After the expansion, the cost of production of aluminium is expected to come down to USD 950 per tonne.

Future Plans

The management indicated that they intend to have 1 million capacities in each copper zinc and aluminium business by FY10. It plans exposure in the energy sector as well in the form of power generation. It is in the process of acquiring coal blocks from the government.