

July 9, 2010

Rating	Accumulate
Price	Rs168
Target Price	Rs197
Implied Upside	17.8%
Sensex	17,834

(Prices as on July 9, 2010)

Trading Data

Market Cap. (Rs bn)	563.7
Shares o/s (m)	3,361.6
Free Float	47.93%
3M Avg. Daily Vol ('000)	15,861.8
3M Avg. Daily Value (Rs m)	2,780.6

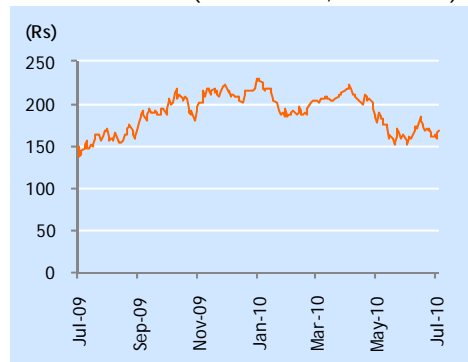
Major Shareholders

Promoters	52.07%
Foreign	14.28%
Domestic Inst.	7.95%
Public & Others	25.70%

Stock Performance

(%)	1M	6M	12M
Absolute	6.5	(26.1)	20.3
Relative	(0.6)	(27.8)	(9.3)

Price Performance (RIC: STRL.BO, BB: STLT IN)



Source: Bloomberg

We met the management of Sterlite Industries. Following are the key takeaways from the meeting:

- **VAL's cost of production (CoP) at competitive levels even without Niyamgiri mines:** Management expects the CoP to settle at US\$1400 per tonne once the smelter gets stabilized even with the outsourced bauxite. The cost seems competitive as compared to US\$1582, US\$1800 and US\$2000 per tonne for Rusal, Alcoa and Chinalco, respectively. VAL expects to produce 750k and 1000k tonnes in FY11 and FY12, respectively.
- **Commissioning of Phase-I of 2400MW delayed to Q2FY10:** Integrated commissioning of the first unit (600MW) out of 2400MW under Sterlite Energy (SEL) got further delayed by a quarter to Q2FY11, with full commissioning of the project by Q1FY12. With respect to sale of power, the management guided for VAL's share at 71% of the total generation (on the full stabilisation of the entire aluminium project), State grid's share at 25% and the residual would be available for sale in the open market. Management guided for supply to Grid and VAL at the rate of Rs2.5/unit.
- **Strong acid realizations to spur copper business' earnings:** Acid realizations remained very strong, with price of sulphuric acid rising to Rs3,200/tonne (Q4FY10 average of Rs2,100) and price of phosphoric acid touching Rs35,000/tonne level (Rs3,16,000 in Q4FY10). While on Tc/Rc, the company expects it at cent13/lbs in FY11 against cent13.5/lbs in FY10.
- **Hindustan Zinc (HZL) to benefit from capacity expansion:** Management expects 900k tonnes of lead-zinc production in FY11 on the back of expansion of zinc smelting capacity by 310ktpa, which got commissioned during Q4FY10. HZL's recent acquisition of Anglo zinc assets is under the ratification process with the Government of India (GOI). Management expects it to take another 6-12 months for getting the required approvals from GOI.
- **Valuation:** Stock is attractively placed on P/BV, with valuations of 1.4x and 1.2x FY11 and FY12, respectively. We believe that P/BV captures the earnings and structure of the balance sheet much better, given the fact that sizeable investments are being made in subsidiaries and associate companies. Historically, the stock has traded at P/BV of 1.4-1.5x 1-year forward rolling BV and implying the same, we see stock's price target at Rs197 (1.4x FY12 P/BV). We maintain 'Accumulate' on the stock.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenues (Rs m)	211,442	244,103	242,547	346,551
Growth (%)	(14.4)	15.4	(0.6)	42.9
EBITDA (Rs m)	47,041	60,718	70,087	121,709
PAT (Rs m)	35,400	39,856	41,287	75,193
EPS (Rs)	12.5	11.9	12.0	21.8
Growth (%)	(19.5)	(5.1)	1.0	82.1
Net DPS (Rs)	0.9	0.9	1.1	2.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	22.2	24.9	28.9	35.1
RoE (%)	14.8	12.0	10.6	17.1
RoCE (%)	13.4	12.1	10.5	15.2
EV / sales (x)	2.0	2.2	2.2	1.5
EV / EBITDA (x)	8.9	8.7	7.6	4.2
PE (x)	13.4	14.1	14.0	7.7
P / BV (x)	1.9	1.5	1.4	1.2
Net dividend yield (%)	0.5	0.6	0.7	1.2

Source: Company Data; PL Research

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Operating metrics

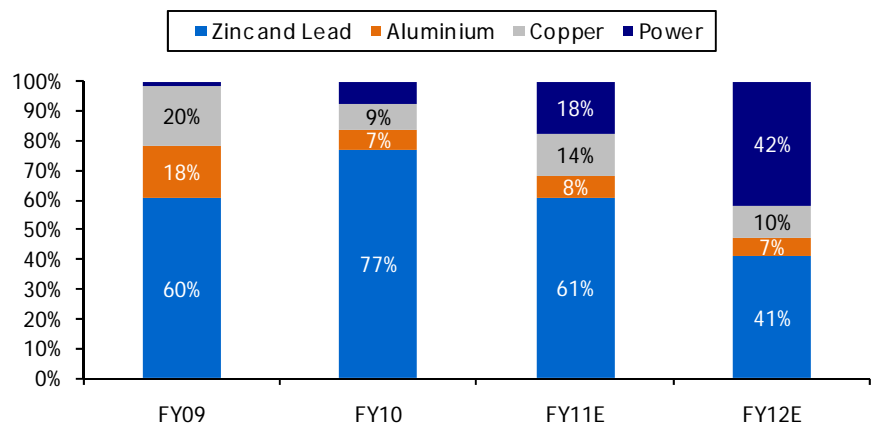
Y/e March	FY08	FY09	FY10	FY11E	FY12E
Zinc business					
Volume					
Zinc	425,532	552,330	577,685	697,541	792,762
Lead	58,298	60,564	64,391	92,610	121,181
Silver (Kg)	81,982	103,125	139,130	211,071	303,594
LME average- Zinc US\$	3,003	1,572	1,936	1,800	1,800
Blended realisation per tonne	125,946	70,353	99,421	87,916	87,916
Cost per tonne (Rs/tonne)	39,057	43,089	47,190	47,791	47,300
EBITDA per tonne	84,045	39,989	65,847	49,570	53,243
EBITDA (Rs m)	53,784	27,342	46,701	40,634	48,692
PAT (Rs m)	43,961	27,276	40,414	37,181	45,496
Aluminium					
Sales volume					
Aluminium	358,328	356,513	267,802	257,241	329,995
Power (m Kwh)	194	320	1,354	1,529	4,742
Realisation (Rs)					
Aluminium	112,892	106,312	101,511	101,322	98,982
Power (Per Kwh)	1.9	3.7	5.0	4.5	4.0
Cost per tonne of Aluminium	78,534	87,413	87,633	83,089	77,002
Power generation cost per Kwh	1.4	1.6	1.6	1.7	1.8
EBITDA per tonne	34,358	18,898	13,877	18,233	21,980
EBITDA (Rs m)	13,640	8,856	8,608	9,378	18,270
Power	85	684	4,612	4,327	10,536
Aluminium	13,555	8,172	3,995	5,051	7,734
PAT (Rs m)	6,782	5,174	5,574	4,560	10,783

Operating metrics

Y/e March	FY08	FY09	FY10	FY11E	FY12E
Sterlite copper					
Sales volume					
Copper	337,073	312,572	333,244	331,129	398,209
Sulphuric acid	614,097	513,306	484,452	455,844	670,399
Phosphoric acid	160,665	157,108	205,837	203,649	207,567
Realisation					
Tc/Rc (\$c/lb)	15.7	11.8	13.5	12.7	12.7
Tc/Rc (\$/Tonne)	364	273	315	281	281
Sulphuric acid	3,862	5,091	828	2,000	2,000
Phosphoric acid	25,287	72,828	26,000	28,500	28,500
Cost per tonne (\$/Tonne)	498	642	589	570	496
EBITDA per tonne (\$/Tonne)	662	631	334	621	696
EBITDA (Rs m)	8,992	9,051	5,289	9,255	12,468
PAT (Rs m)	10,324	11,965	10,889	16,466	18,329
Sterlite energy					
Units sold (m Kwh)				2,900	15,581
Rate per Unit (Rs)				4.0	3.5
Cost per unit (Rs)				1.4	1.0
Revenue				11,602	54,556
EBITDA				7,629	39,429
PAT				(2,229)	19,143

Business-wise EBITDA break-up

Earnings quality shifting from commodity to non-commodity business streams



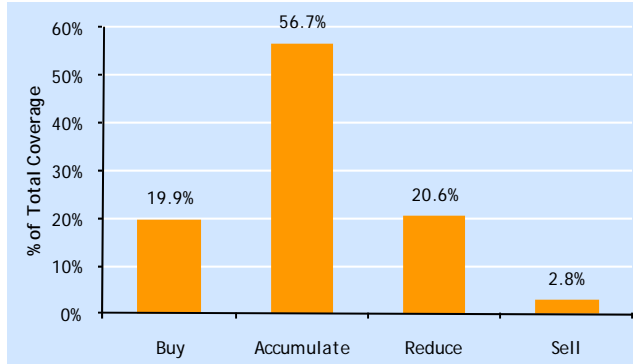
Source: Company data, PL Research

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PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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