

UBS Investment Research

Sterlite Industries

Operations on track, looking for allocations

■ Q2 revenues were flat, operational efficiencies delivered flat PAT

Sterlite's key zinc revenues were flat YoY, despite volumes up 14.4%, while zinc concentrate sales were lower, yielding a lower EBIT -22% YoY. Zinc concentrate sales were lower as a proportion of total zinc sales, affecting profitability. Copper revenues earned a TCRC of \$18c/lb, growing revenues 6.2% and volumes 13.8%. Copper EBIT was down 53.4% YoY, despite higher recoveries. Aluminium gained on backward linkages as Vedanta Alumina started supplying alumina. BALCO grew revenues 7.8%, volumes 13.9% and EBIT 29% on raw material cost savings.

■ Operating profits -24%, lower interest and tax shore up PAT

Operating profits came in -24% YoY, and lower interest (-45%) and tax (-35%) helped deliver the flat PAT YoY. Our global commodity desk expects zinc metal prices to be dull into Q3FY08E. We now look for capacity argumentation in Dec'07 in Chanderiya apart from the buyback triggers for both HZL and BALCO.

■ Power business, coal block allocation, bauxite mine allocation

Apart from the 2,400MW Orissa project, management also spoke about an MOU signed for 1,200 MW in Chattisgarh. The company mentioned that it is two-four weeks from being allotted bauxite mines, and is in advanced talks to be allocated coal blocks.

■ Valuation

Our sum-of-the-parts valuation is Rs1,025 per share. We maintain our Neutral rating on the stock.

Highlights (Rsm)	03/06	03/07	03/08E	03/09E	03/10E
Revenues	135,395	247,702	309,157	295,922	211,479
EBIT (UBS)	31,609	86,550	92,900	96,814	48,917
Net Income (UBS)	16,808	45,827	48,731	54,239	34,860
EPS (UBS, Rs)	30.08	82.02	68.78	76.56	49.20
Net DPS (UBS, Rs)	1.43	6.90	7.00	7.00	4.00

Profitability & Valuation	5-yr hist av.	03/07	03/08E	03/09E	03/10E
EBIT margin %	15.7	34.9	30.0	32.7	23.1
ROIC (EBIT) %	-	81.6	74.0	73.2	38.8
EV/EBITDA (core) x	-	2.6	5.9	4.6	7.3
PE (UBS) x	5.2	5.7	13.9	12.5	19.5
Net dividend yield %	-	1.5	0.7	0.7	0.4

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs957.90 on 29 Oct 2007 22:31 EDT

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Global Equity Research

India

Non-Ferrous Metals

12-month rating **Neutral ***
Unchanged

12m price target **Rs1,025.00/-**
Unchanged

Price **Rs957.90/US\$24.37 (GDR)**

RIC: STRL.BO BBG: STLT IN

29 October 2007

Trading data (local/US\$)

52-wk range	Rs957.90-434.85/US\$24.37-9.93
Market cap.	Rs679bn/US\$17.3bn
Shares o/s	708m (ORD)/559m (GDR)
GDR ratio	1 GDR:1 ORD
Free float	21%
Avg. daily volume ('000)	306/112
Avg. daily value (Rsm)	230.5/1.7

Balance sheet data 03/08E

Shareholders' equity	Rs223bn
P/BV (UBS)	3.0x
Net Cash (debt)	Rs98.5bn

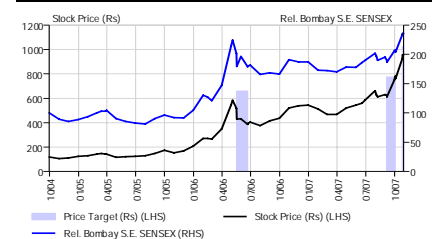
Forecast returns

Forecast price appreciation	+7.0%
Forecast dividend yield	0.7%
Forecast stock return	+7.7%
Market return assumption	11.9%
Forecast excess return	-4.2%

EPS (UBS, Rs)

	03/08E		03/07
	UBS	Cons.	Actual
Q1E	-	-	-
Q2E	-	-	-
Q3E	-	-	-
Q4E	-	-	-
03/08E	68.78	63.18	-
03/09E	76.56	62.95	-

Performance (Rs)



Source: UBS

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This report has been prepared by UBS Securities India Private Ltd

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5. * Exception to core rating bands; See page 7

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Table 1: Sterlite's Q2 production and financial summary

Particulars	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Production (t)						
Aluminium	67,000	79,000	98,000	98,000	97,000	90,000
Copper	57,000	80,000	86,000	89,000	81,000	91,000
Mined metal	131,000	125,000	128,000	121,000	135,000	143,000
Zinc metal	82,000	79,000	93,000	95,000	93,000	94,000
Total						
Revenues (Rs mn)						
Aluminium	9,766	10,912	12,886	14,193	11,834	11,764
Copper	22,159	33,783	32,623	30,431	32,175	35,883
Zinc	21,197	22,068	26,679	22,260	21,813	22,068
Total	49,724	63,486	68,123	62,536	61,391	65,671
EBIT (Rs mn)						
Aluminium	1,604	1,503	4,324	4,552	2,930	1,939
Copper	3,714	4,456	3,750	2,867	2,613	2,076
Zinc	12,043	18,477	18,764	13,795	15,411	14,399
Total	18,020	24,988	27,605	22,755	23,031	20,845
EBIT margins (%)						
Aluminium	16.4%	13.8%	33.6%	32.1%	24.8%	16.5%
Copper	16.8%	13.2%	11.5%	9.4%	8.1%	5.8%
Zinc	56.8%	83.7%	70.3%	62.0%	70.7%	65.2%
Total	36.2%	39.4%	40.5%	36.4%	37.5%	31.7%

Source: Company data, UBS estimates

Sterlite Industries

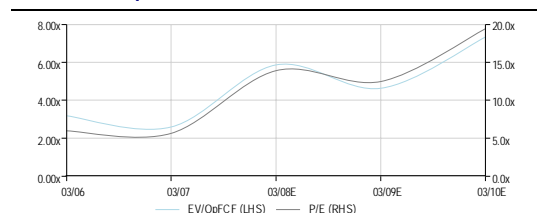
Income statement (Rsm)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Revenues	42,977	57,681	73,141	135,395	247,702	309,157	24.8	295,922	-4.3	211,479	-28.5
Operating expenses (ex deprn)	(34,344)	(43,865)	(57,764)	(98,517)	(153,114)	(208,101)	35.9	(190,868)	-8.3	(154,596)	-19.0
EBITDA (UBS)	8,633	13,816	15,377	36,878	94,589	101,056	6.8	105,054	4.0	56,884	-45.9
Depreciation	(3,018)	(2,787)	(2,977)	(5,269)	(8,039)	(8,156)	1.5	(8,240)	1.0	(7,967)	-3.3
Operating income (EBIT, UBS)	5,615	11,029	12,400	31,609	86,550	92,900	7.3	96,814	4.2	48,917	-49.5
Other income & associates	1,383	1,600	2,972	3,363	6,817	9,004	32.1	14,873	65.2	18,551	24.7
Net interest	(1,806)	(1,445)	(1,343)	(2,353)	(3,791)	(2,251)	-40.6	(2,376)	5.5	(2,166)	-8.8
Abnormal items (pre-tax)	(701)	(2,821)	(1,737)	(30)	(101)	0	-	0	-	0	-
Profit before tax	4,492	8,363	12,292	32,589	89,475	99,653	11.4	109,312	9.7	65,302	-40.3
Tax	(1,455)	(1,861)	(3,147)	(10,236)	(24,707)	(27,686)	12.1	(30,495)	10.1	(18,092)	-40.7
Profit after tax	3,038	6,502	9,145	22,353	64,768	71,967	11.1	78,817	9.5	47,209	-40.1
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	(895)	(1,858)	(2,630)	(5,574)	(19,043)	(23,236)	22.0	(24,578)	5.8	(12,349)	-49.8
Net income (local GAAP)	2,143	4,643	6,515	16,778	45,726	48,731	6.6	54,239	11.3	34,860	-35.7
Net Income (UBS)	2,844	7,464	8,252	16,808	45,827	48,731	6.3	54,239	11.3	34,860	-35.7
Tax rate (%)	32	22	26	31	28	28	0.6	28	0.4	28	-0.7
Pre-abnormal tax rate (%)	38	19	28	35	30	31	2.3	32	5.7	39	19.8
Per share (Rs)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
EPS (local GAAP)	5.97	12.93	11.87	30.03	81.84	68.78	-16.0	76.56	11.3	49.20	-35.7
EPS (UBS)	7.92	20.78	15.03	30.08	82.02	68.78	-16.1	76.56	11.3	49.20	-35.7
Net DPS	-	0.00	0.79	1.43	6.90	7.00	1.4	7.00	0.0	4.00	-42.9
Cash EPS	16.32	28.53	20.45	39.52	96.41	80.29	-16.7	88.19	9.8	60.45	-31.5
BVPS	36.54	46.86	78.77	108.35	178.66	315.45	76.6	383.61	21.6	428.02	11.6
Balance sheet (Rsm)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Net tangible fixed assets	40,391	52,759	78,119	85,497	97,176	103,020	6.0	104,781	1.7	100,814	-3.8
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	2,208	3,428	8,087	15,156	30,824	38,390	24.5	36,665	-4.5	28,012	-23.6
Other liabilities	(2,848)	(4,303)	(4,889)	(7,406)	(9,174)	(9,174)	0.0	(9,174)	0.0	(9,174)	0.0
Operating invested capital	39,751	51,884	81,317	93,247	118,826	132,237	11.3	132,272	0.0	119,652	-9.5
Investments	229	10,986	18,491	24,952	52,219	52,761	1.0	56,113	6.4	60,204	7.3
Total capital employed	39,980	62,870	99,807	118,199	171,045	184,998	8.2	188,385	1.8	179,857	-4.5
Shareholders' equity	13,126	16,836	43,242	60,533	99,818	223,495	123.9	271,788	21.6	303,251	11.6
Minority interests	9,509	8,752	11,379	16,948	36,259	60,037	65.6	87,967	46.5	104,407	18.7
Total equity	22,635	25,588	54,621	77,480	136,076	283,532	108.4	359,755	26.9	407,657	13.3
Net debt / (cash)	17,346	37,283	45,186	40,719	34,969	(9,535)	-	(171,370)	73.9	(227,801)	32.9
Debt deemed provisions	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	39,980	62,870	99,807	118,199	171,045	184,998	8.2	188,385	1.8	179,857	-4.5
Cash flow (Rsm)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Operating income (EBIT, UBS)	5,615	11,029	12,400	31,609	86,550	92,900	7.3	96,814	4.2	48,917	-49.5
Depreciation	3,018	2,787	2,977	5,269	8,039	8,156	1.5	8,240	1.0	7,967	-3.3
Net change in working capital	(285)	(15)	(4,658)	(7,069)	(15,668)	(7,566)	-51.7	1,725	-	8,653	401.5
Other (operating)	671	(1,624)	1,236	3,333	6,716	9,004	34.1	14,873	65.2	18,551	24.7
Operating cash flow	9,019	12,177	11,954	33,142	85,637	102,494	19.7	121,652	18.7	84,088	-30.9
Net interest received / (paid)	(1,806)	(1,445)	(1,343)	(2,353)	(3,791)	(2,251)	-40.6	(2,376)	5.5	(2,166)	-8.8
Dividends paid	(248)	(300)	(743)	(1,222)	(3,856)	(5,946)	54.2	(5,946)	0.0	(3,398)	-42.9
Tax paid	219	(2,624)	(2,667)	(7,823)	(23,044)	(27,686)	20.1	(30,495)	10.1	(18,092)	-40.7
Capital expenditure	(12,507)	(15,155)	(28,337)	(12,648)	(19,718)	(14,000)	-29.0	(10,000)	-28.6	(4,000)	-60.0
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	0	0	0	0	0	0	-	0	-	0	-
Share issues	(2,876)	(633)	20,631	1,732	(2,585)	80,893	-	0	-	0	-
Cash flow (inc)/dec in net debt	(2,452)	(10,192)	(605)	10,828	32,912	133,504	305.6	72,835	-45.4	56,431	-22.5
FX / non cash items	(1,409)	(9,745)	(7,399)	(6,360)	(27,163)	0	-	0	-100.0	0	-
Balance sheet (inc)/dec in net debt	(3,861)	(19,937)	(7,904)	4,468	5,750	133,504	2222.0	72,835	-45.4	56,431	-22.5
Core EBITDA	8,633	13,816	15,377	36,878	94,589	101,056	6.8	105,054	4.0	56,884	-45.9
Maintenance capital expenditure	0	0	0	0	0	0	-	0	-	0	-
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	8,633	13,816	15,377	36,878	94,589	101,056	6.8	105,054	4.0	56,884	-45.9

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

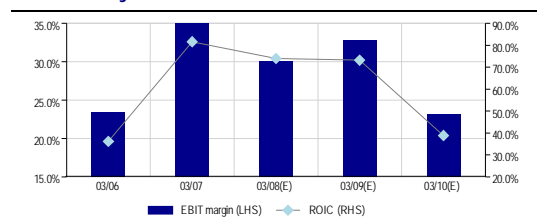
Company profile

Sterlite Industries, the flagship of the Agarwal group, owns a 400ktpa copper smelter in Tuticorin, India. It is the holding company for Hindustan Zinc (HZL, with a 65% stake), Balco (100%), Copper Mines of Tasmania (CMT, 100%), and Sterlite Power (100%) within the Vedanta group. HZL had 411ktps zinc smelting capacity at end-FY07, which the company expects to raise to 669ktpa by June 2008. Balco has increased its aluminium smelting capacity from 135ktpa to 345ktpa. Sterlite is setting up a 2,400 MW merchant power plant that should start operations by December 2009. Sterlite holds 30% of Vedanta Alumina.

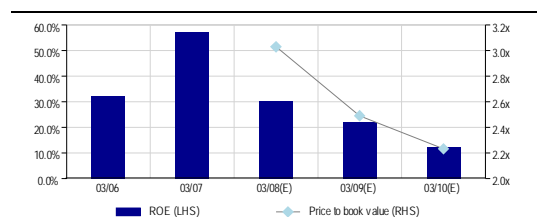
Value (EV/OpFCF & P/E)



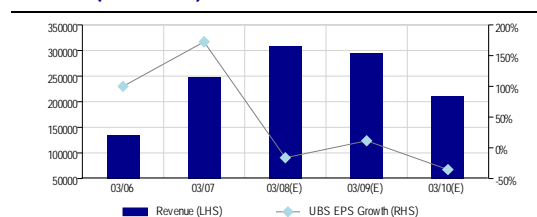
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
P/E (local GAAP)	-	6.0	5.7	13.9	12.5	19.5
P/E (UBS)	5.2	6.0	5.7	13.9	12.5	19.5
P/CEPS	3.2	4.5	4.8	11.9	10.9	15.8
Net dividend yield (%)	-	0.8	1.5	0.7	0.7	0.4
P/BV	1.1	1.7	2.6	3.0	2.5	2.2
EV/revenue (core)	-	0.9	1.0	1.9	1.6	2.0
EV/EBITDA (core)	-	3.2	2.6	5.9	4.6	7.3
EV/EBIT (core)	-	3.7	2.8	6.4	5.0	8.5
EV/OpFCF (core)	-	3.2	2.6	5.9	4.6	7.3
EV/op. invested capital	-	1.3	2.3	4.7	3.7	3.3

Enterprise value (Rsm)	03/06	03/09	03/08E	03/09E	03/10E
Average market cap	99,360	259,000	677,033	677,033	677,033
+ minority interests	0	0	0	0	0
+ average net debt (cash)	42,952	37,844	(31,783)	(134,952)	(199,585)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(24,952)	(52,219)	(52,761)	(56,113)	(60,204)
Core enterprise value	117,361	244,624	592,489	485,967	417,243

Growth (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Revenue	45.4	85.1	82.9	24.8	-4.3	-28.5
EBITDA (UBS)	79.1	139.8	156.5	6.8	4.0	-45.9
EBIT (UBS)	103.3	154.9	173.8	7.3	4.2	-49.5
EPS (UBS)	108.5	100.1	172.6	-16.1	11.3	-35.7
Cash EPS	70.3	93.2	144.0	-16.7	9.8	-31.5
Net DPS	-	79.8	NM	1.4	0.0	-42.9
BVPS	44.0	37.5	64.9	76.6	21.6	11.6

Margins (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBITDA / revenue	20.8	27.2	38.2	32.7	35.5	26.9
EBIT / revenue	15.7	23.3	34.9	30.0	32.7	23.1
Net profit (UBS) / revenue	9.2	12.4	18.5	15.8	18.3	16.5

Return on capital (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBIT ROIC (UBS)	-	36.2	NM	74.0	73.2	38.8
ROIC post tax	-	23.5	57.3	51.4	49.6	23.8
Net ROE	27.4	32.4	57.2	30.1	21.9	12.1

Coverage ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBIT / net interest	8.2	14.9	24.6	NM	NM	NM
Dividend cover (UBS EPS)	-	21.1	11.9	9.8	10.9	12.3
Div. payout ratio (% , UBS EPS)	-	4.7	8.4	10.2	9.1	8.1
Net debt / EBITDA	2.0	1.1	0.4	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Revenue / op. invested capital	-	1.6	2.3	2.5	2.2	1.7
Revenue / fixed assets	-	1.7	2.7	3.1	2.8	2.1
Revenue / net working capital	-	11.7	10.8	8.9	7.9	6.5

Investment ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
OpFCF / EBIT	-	1.2	1.1	1.1	1.1	1.2
Capex / revenue (%)	-	9.3	8.0	4.5	3.4	1.9
Capex / depreciation	-	2.4	2.5	1.7	1.2	0.5

Capital structure (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Net debt / total equity	NM	67.3	35.0	(44.1)	(63.1)	(75.1)
Net debt / (net debt + equity)	51.0	40.2	25.9	(78.9)	NM	NM
Net debt (core) / EV	-	36.6	15.5	(5.4)	(27.8)	(47.8)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs957.90 on 29 Oct 2007 22:31 EDT Market cap(E) may include forecast share issues/buybacks.

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* Exception to core rating bands; See page7

■ Sterlite Industries

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■ Statement of Risk

We believe a sharp fall in zinc prices, which are linked to global economic growth, would be the key risk factor for Sterlite. Fluctuations in TcRc for copper smelting and refining could have a negative effect on the profitability of operations. The company may not, for whatever reason, be able to acquire the government stake in HZL and/or BALCO, which could affect the consolidation of operations into the future. Disruption in power supply could lead to delays in projects and/or increases in capex requirements.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	55%	40%
Neutral	Hold/Neutral	36%	35%
Sell	Sell	9%	22%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	0%	29%
Sell	Sell	0%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2007.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Sterlite Industries ^{16, 20}	STRL.BO	Neutral (CBE)	N/A	Rs955.60	26 Oct 2007

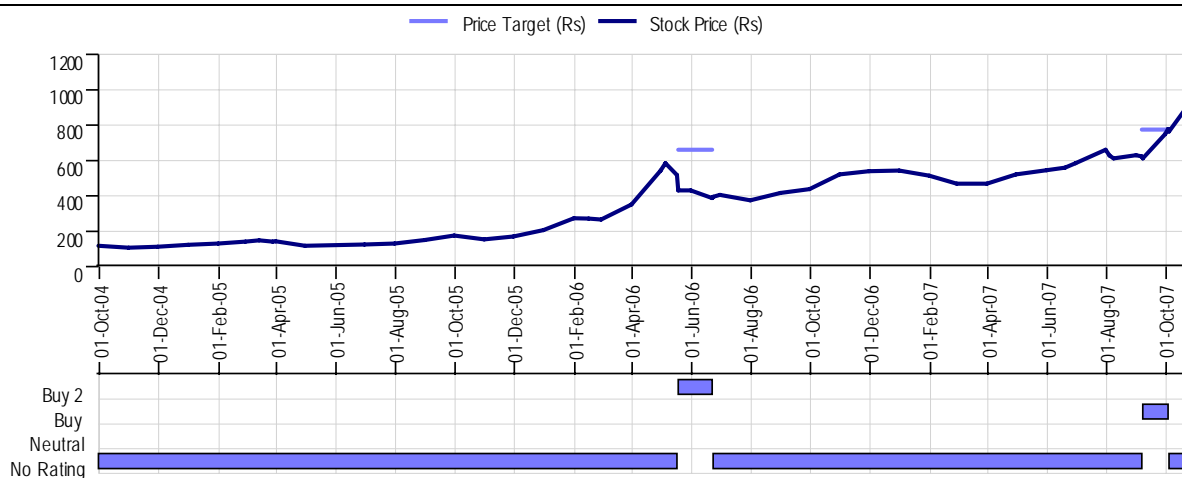
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.
20. Because UBS believes this security presents significantly higher-than-normal risk, its rating is deemed Buy if the FSR exceeds the MRA by 10% (compared with 6% under the normal rating system).

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Sterlite Industries (Rs)



Source: UBS; as of 26 Oct 2007

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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