RESULTS REVIEW

Share Data

Market Cap	Rs. 434.2 bn
Price	Rs. 612.85
BSE Sensex	14,296.79
Reuters	STRL.BO
Bloomberg	STLT IN
Avg. Volume (52 Week)	0.4 mn
52-Week High/Low	Rs. 1,140/535
Shares Outstanding	708.5 mn

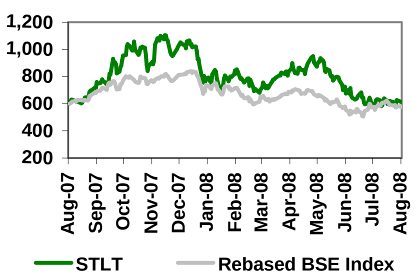
Valuation Ratios

Year to 31 March	2009E	2010E
EPS (Rs.)	61.8	70.6
EPS Growth (%)	(2.9)%	14.4%
PER (x)	9.9x	8.7x
EV/ Sales (x)	2.1x	2.0x
EV/ EBITDA (x)	7.1x	6.7x

Shareholding Pattern (%)

Promoters	62
FIIs	8
Institutions	6
Public & Others	24

Relative Performance



Sterlite Industries Ltd — Buy

Volumes to offset softness in metal prices

During Q1'09, net sales of Sterlite Industries (SIL) fell 6% yoy to Rs. 57.7 bn due to lower volumes in the copper segment and a sharp fall in zinc realisations. However, adj. net profit increased 13.7% yoy to Rs. 11.5 bn and margin improved 346 bps yoy, supported by a 6 pt fall in the effective tax rate.

We hold the following outlook on the Company in the coming quarters:

- **Aluminium Segment:** After reaching an all time high of USD 3,296 per ton, the prices of aluminium have started to decline led by slow down in global economy and resumption of supply from China. However, higher production cost is restricting the fall in prices. Thus, we expect aluminium prices to average around USD 2,700–USD 2,750 per ton in FY09. In addition to stable prices, SIL is bringing in the new aluminium capacity of 250 ktpa at Vedanta Aluminium Limited.
- **Zinc Segment:** Though the Company is aggressively expanding its zinc capacities, we expect the segment to be under pressure because of the sharp decline in zinc prices. Prices for the metal have fallen 42.3% yoy in Q1'09 on the back of the rising surplus in the global market. We expect this trend to continue due to a weakening global economy.
- **Copper Segment:** Though we expect the copper segment to be under pressure due to the falling Tc/Rc rates, rising prices of by-products such as sulphuric acid and improved operating efficiencies should limit the fall in the bottom line.
- **Consolidated margins:** We expect margins for the Company to fall on the back of rising raw material and energy costs, as well as declining zinc prices and Tc/Rc rates.

Key Figures (Consolidated)

Quarterly Data	Q1'08	Q4'08	Q1'09	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	61,391	67,659	57,701	(6.0)%	(14.7)%
EBITDA	21,561	21,746	18,266	(15.3)%	(16.0)%
Adj. Net Profit	10,124	11,603	11,511	13.7%	(0.8)%
Margins(%)	16.5%	17.1%	19.9%		
EBITDA	35.1%	32.1%	31.7%		
NPM	16.5%	17.1%	19.9%		
Per Share Data (Rs.)					
Adjusted EPS	17.7	17.9	16.3	(8.0)%	(9.1)%

Valuation

At the current market price of Rs. 618.45, the stock is trading at a forward EV/EBITDA of 7.1x for FY09E and 6.7x for FY10E. At this price, we believe that the market has factored in all the negative news. We have valued SIL at an EV/EBITDA of 8x and have arrived at a target price of Rs. 836. Hence, we maintain our Buy rating on the stock

Result Highlights

During Q1'09, net sales for the Company declined 6% yoy to Rs. 57.7 bn due to lower volumes in the copper segment and a sharp fall in zinc realisations. EBITDA dropped 15.3% yoy to Rs. 18.3 bn and EBITDA margin fell 347 bps yoy, primarily due to a 505 bps increase in other expenses (as a percentage of net sales).

Notwithstanding the fall in EBITDA, adj. net profit jumped 13.7% yoy to Rs. 11.5 bn, supported by a lower depreciation charge (down 18.5% yoy) and a jump in other income (up 83% yoy). Adj. net profit margin improved 346 bps yoy to 19.9% due to a 6 pt fall in the effective tax rate.

Segmental Highlights

Cash cost of aluminium production stood at USD 1,700 per ton

Aluminium: Aluminium production in Q1'09 stood at 89,000 tons, up by a marginal 1.1% yoy. Revenues jumped 11.3% yoy to Rs. 13.2 bn on the back of a 6.4% increase in the average LME aluminium prices to USD 2,940 per ton. As a result, EBITDA from the segment increased 9.6% yoy to Rs. 4.6 bn. However, EBITDA margin declined 54 bps yoy to 34.8% due to higher energy costs.

Production cost of zinc fell due to improved operational efficiencies

Zinc: Production volumes of zinc and lead surged 38.1% and 26.7% yoy to 127,889 tons and 17,298 tons, respectively, on the back of increased production capacities. However, revenue from the segment tumbled 18.6% yoy to Rs. 17.8 bn due to a sharp 42.3% decline in average zinc LME prices and the lower sale of zinc and lead concentrates because of higher internal consumption. The segment's EBITDA nosedived 30.4% yoy to Rs. 11.9 bn, and EBITDA margin fell 11.4 pts yoy to 66.8%.

Tc/Rc rates are expected to fall further by 20-25%

Copper: Revenues declined 7.9% yoy to Rs. 29.6 bn due to lower production volumes on account of a planned plant maintenance shutdown for 26 days. However, EBITDA jumped 52.9% yoy to Rs. 5.8 bn primarily on the back of a higher interest income, better operating efficiencies, and improved by-product management.

Key Events

Sterlite obtains approval for mining bauxite

The Supreme Court of India has cleared SIL's proposal for mining bauxite in Orissa. The Company had sought clearance for the diversion of 660.749 hectares of forest land for mining purposes to feed its alumina plant.

Sterlite Energy wins contract

Sterlite Energy has won a contract to set up a 1,980 MW (3X660) coal-based power plant in Talwandi Sabo, Punjab. The project is expected to be fully commissioned in 56 months and the power will be sold at a low tariff of Rs. 2.86 per unit.

Key Risks

The following factors can pose a threat to our rating:

- Unexpected fluctuations in metal prices
- Any unexpected outcome of the agreement with Asarco

Outlook

For the next two years, we have the following outlook on the Company:

Aluminium segment: Aluminium prices have increased sharply over the past few months as power shortages around the world forced the major producers to cut production, leading to fears of supply shortages. As a result, aluminium prices touched a high of USD 3,296 per ton. However, we expect the prices to decline in the coming quarters as China, which had curtailed production of the metal due to the Beijing Olympics, will resume production after the Games.

Moreover, the demand for aluminium is expected to slow down due to a weakening global economy. Though we expect aluminium prices to decline in the coming months because of an improved supply and falling demand, rising production costs should restrict the fall in the prices. All told, we expect aluminium prices to average around USD 2,700 - USD 2,750 per ton during FY09-10.

Meanwhile, the Company is focussing on volume growth, primarily driven by Vedanta Aluminium. The Company has started production of aluminium at its Jharsuguda smelter and should commence commercial production any time now. The management expects to commission 40% of the total Phase I capacity (250 ktpa) in FY08. Thus, we expect volumes to increase in FY09 and FY10.

Zinc segment: Zinc prices declined by 42.3% yoy to average around USD 2,113 per ton in Q1'09 as production significantly overtook demand. As a result, zinc warehouse stocks on the LME increased by more than 160% over the last year to 163 kt. The global zinc market was in 78 kt surplus from January 2008 to April 2008, compared with a 43 kt surplus during the same time period last year. The trend is expected to continue in FY09 and FY10. The International Lead and Zinc Study Group (ILZG) expects the zinc market to have a surplus of 175 kt in FY09 and 240 kt in FY10. However, the Company is increasing its volumes to restrict the effect of the falling zinc prices. Zinc production increased 38% yoy in Q1'09 on the back of the recent capacity expansions. We expect zinc production volumes to increase by around 42% yoy in FY08 as SIL is increasingly utilising its new capacities. Moreover, SIL has announced plans to expand its zinc and lead capacities by 310 ktpa, which would increase the total capacity to 1,064 kt. This initiative will help the Company to achieve its target of 1 mtpa production capacity for zinc and lead and become the largest integrated player for zinc and lead in the world.

Copper segment: Margins for the copper segment have been under pressure due to the sharp fall in Tc/Rc rates. These rates are expected to fall further by 20-25% in the next few quarters due to the shortage of copper ore in the market. However, with improved operating efficiency, by-product management, and rising prices of by-products such as sulphuric acid, the Company has been able to restrict the effect of the falling Tc/Rc rates. Thus, we believe that the rise in by-product prices will limit the effect of the falling Tc/Rc rates in the near term.

Power segment: To offset the volatility in the metal sector, SIL is increasing its focus on the power sector. It recently won a tender to set up a 1,980 MW (3 X 660) power plant in Talwandi Sabo, Punjab. The project is expected to be fully commissioned in 56 months and the power will be sold at a low tariff of Rs. 2.86 per unit. Meanwhile, work on the Company's 2,400 MW power project at Jharsuguda is on schedule and is expected to be completed in FY09.

At the current market price of Rs. 618.45, the stock is trading at a forward EV/EBITDA of 7.1x for FY09E and 6.7x for FY10E. At this price, we believe the market has factored in all the negative news. We have valued SIL at an EV/EBITDA of 8x and have arrived at a target price of Rs. 836. Hence, we maintain our Buy rating on the stock.

Key Figures (Consolidated)

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR
(Figures in Rs mn, except per share data)						(FY08-10E)
Net Sales	125,427	241,733	247,054	245,092	256,920	2.0%
EBITDA	37,607	96,474	78,682	72,302	77,333	(0.9)%
Adj. Net Profit	16,141	43,988	42,422	43,762	50,046	8.6%
Margins(%)						
EBITDA	29.9%	39.7%	31.8%	29.5%	30.1%	
NPM	12.8%	18.1%	17.2%	17.9%	19.5%	
Per Share Data (Rs.)						
Adjusted EPS	29.2	78.8	63.6	61.8	70.6	5.4%
PER (x)	12.0x	5.9x	9.6x	9.9x	8.7x	

** All figures exclude discontinued operations*

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