

Expect a modest quarter

Quick Note

April 10, 2012

Rating Remains	Buy
Target price Remains	INR 169
Closing price April 9, 2012	INR 106

We expect a stable quarter – not much to look forward to

We expect Sterlite Industries to have a modest quarter with not much expectations of change from last quarter apart from better lead and silver volumes. With prices remaining stable and aluminium and power businesses continuing to see high costs, we don't expect quarterly results to have a significant impact on stock outlook.

We expect consolidated EBITDA of INR 25.2bn, up from INR 23.2bn in Q3FY12 largely on account of improvement in Hindustan Zinc results (HZ IN, Neutral). We expect Hindustan Zinc (HZ IN, Neutral) to see EBITDA of INR 15.8bn, up from INR 14bn in Q3FY12.

We expect net profit of INR 13.6bn for Sterlite (up from INR 9.1bn in Q3FY12) and INR 14.5bn for HZ (up from INR 12.7bn in Q3FY12).

Lead and silver volumes ramp up during the quarter

Lead and silver smelters at Hindustan Zinc commissioned during the last quarter have started to ramp up and reported production of 37,000 tonnes and 2.8mn ounces respectively during the quarter, up from 28,000 tonnes and 1.8mn ounces respectively in Q3FY12. Please note that lead volume growth is despite the closure of its smelter at Vizag (which produced 28,000 tonnes in FY12).

Apart from this, most other volumes are largely flat. Sterlite Energy (not listed) continues to operate at a PLF of less than 50% on limited coal availability.

Supported by stable metal prices...

Along with volume expansion, metal prices have remained stable up 3-5% QoQ and should support earnings. With INR/USD rate also remaining at close to 50, the company should see strong realizations.

Aluminium and power operations remain a drag

Sterlite continues to see stress in aluminium and power operations. While the external purchase of bauxite should keep the cost of production high, we believe the company should see marginal improvement at Vedanta Aluminium (not listed) as operations normalize (last two quarters were affected by pot outage). We still expect Sterlite's share of losses at VAL at INR 1.5bn (down from 2.6bn in Q3FY12).

At the same time the power business continues to operate at a PLF (plant load factor) of close to 45% (on a capacity of 1800MW). However, in March 2012, PLF has seen a jump to 58%; we need to watch whether the company can maintain these high levels over a longer period.

Research analysts

India Metals & Mining

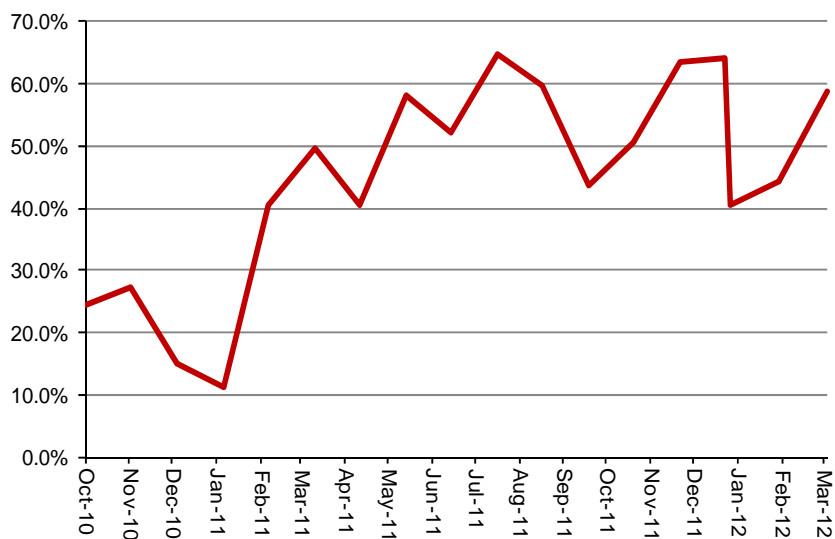
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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Key points from production release:

- Rampur Agucha mine would produce lower volumes in H1FY13, however, overall zinc volumes (at HZ IN) should be marginally higher in FY13F.
- The company has guided for close to 11mn ounces of silver production in FY13, which is 10-15% lower than its earlier guidance but in line with our estimates.
- The company has commissioned the third unit of 600MW power plant while the fourth unit has been synchronized and should start commercial production from early Q1FY13.
- The Balco coal block is still waiting for second-stage forest clearance and there is still no clarity on bauxite mine either.
- The company has also not provided any clarity on the issue of coal linkage for SEL (Sterlite Energy). It has said that it has not yet decided on signing the long-term PPA.

Fig. 1: Sterlite Energy PLF recovered in March



Source: Central Electrical Authority (CEC), Nomura research

Fig. 2: HZ: key estimates

	Q4FY12E	Q4FY11	Q3FY12
Production Volumes (tonnes)			
Zinc	190,000	194,491	190,000
Lead	33,000	16,358	28,000
Silver (kg)	75,000	44,325	49,000
P&L A/c (INR mn)			
Net sales	29,827	32,373	27,868
Stores and spares	2,676	2,395	2,702
Net Mining & Manufacturing expense	3,903	2,466	3,979
Mining royalty	2,119	2,510	2,005
Power and fuel	3,234	2,848	3,177
Staff Cost	1,350	1,341	1,337
Admin selling & other expenditure	758	1,129	646
Total Expenditure	14,039	12,688	13,845
EBITDA	15,788	19,685	14,023
Depreciation	1,600	1,271	1,591
Other income	4,000	3,025	3,819
PBT	18,088	21,306	16,164
Provision for Taxation:	3,618	3,594	3,363
Net profit	14,470	17,713	12,736
EPS (INR)	3.4	4.2	3.0

Source: Company data, Nomura estimates

Fig. 3: Sterlite Industries: key estimates

(INR mn)	Q4FY12E	Q3FY12	Q4FY11
Net sales	104,796	103,037	100,561
Total raw material cost	49,865	47,911	43,254
Employee cost	4,225	4,150	3,675
Power and fuel costs	10,328	10,569	6,849
Other expenditure	15,183	15,924	14,142
Total expenditure	79,601	79,854	69,976
EBITDA	25,196	23,183	30,585
Other income	7,500	8,768	7,254
Interest	1,500	1,573	1,041
Depreciation	4,500	4,575	3,520
PBT	26,696	21,549	33,278
Provision for tax	6,407	5,053	5,663
Extraordinary items	0	0	0
Net profit	20,289	16,431	27,300
Minority interest	5,183	4,660	7,255
Share in Associates	-1,500	-2,636	-795
Consolidated net profit	13,605	9,135	19,250
EPS (INR)	4.05	2.72	5.73

Source: Company data, Nomura estimates

Appendix A-1

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Hindustan Zinc	HZ IN	INR 125	09-4-2012	Neutral	Not rated	
Sterlite Industries India Ltd	STLT IN	INR 106	09-4-2012	Buy	Not rated	

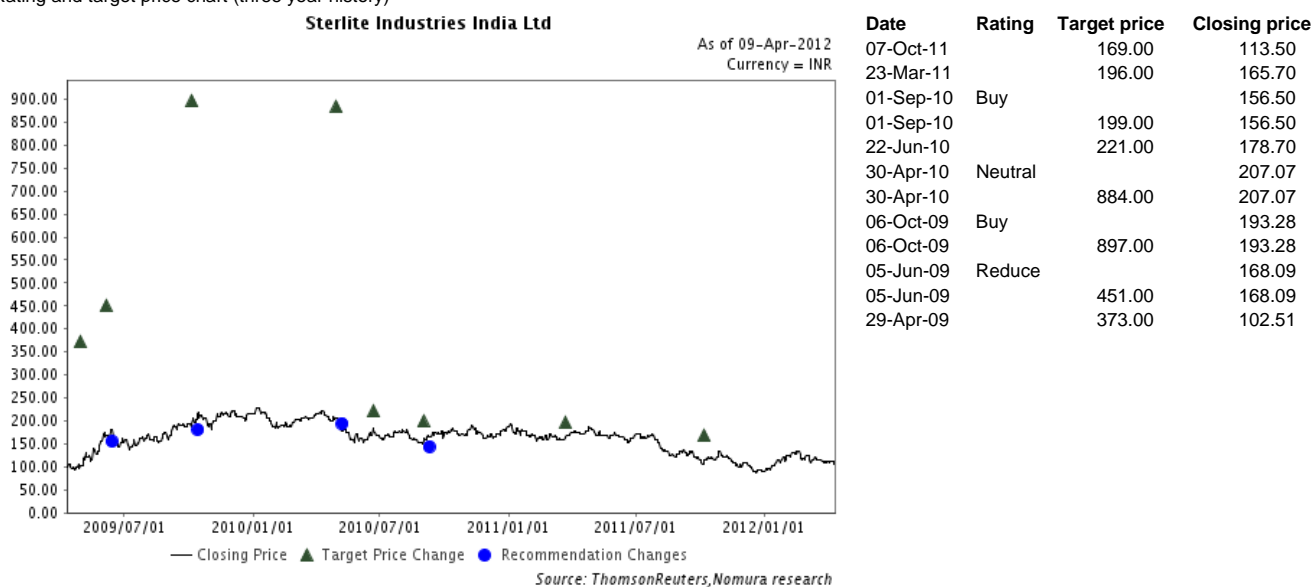
Previous Rating

Issuer name	Previous Rating	Date of change
Hindustan Zinc	Buy	30-4-2010
Sterlite Industries India Ltd	Neutral	01-9-2010

Sterlite Industries India Ltd (STLT IN)

INR 106 (09-4-2012) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

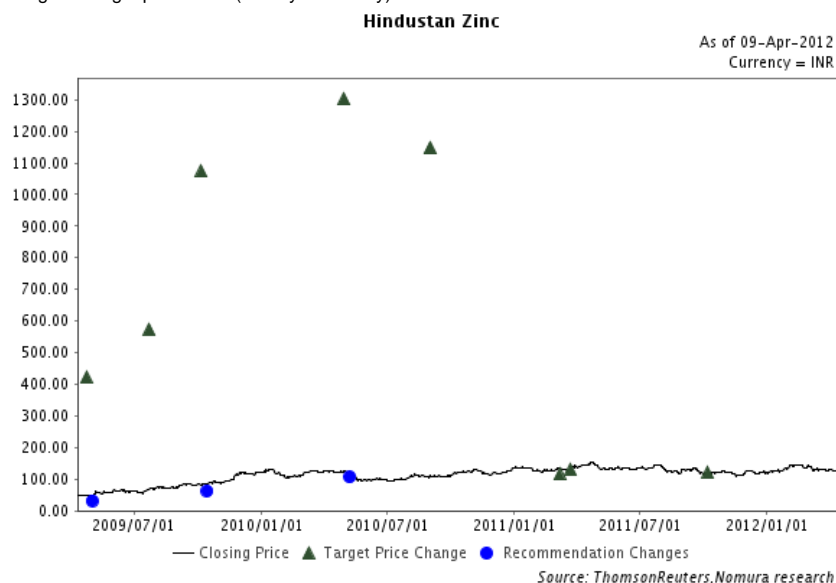
Valuation Methodology We value Sterlite Industries at INR 127 at 0.6x SESA GOA target price of INR 212. this is based on the merger ratio announced by the company.

Risks that may impede the achievement of the target price Key risks: 1) Weak metal prices 2) coal shortage worsens from here and 3) forays into new business areas

Hindustan Zinc (HZ IN)

INR 125 (09-4-2012) Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
07-Oct-11		120.00	118.10
23-Mar-11		130.00	129.60
07-Mar-11		115.00	130.80
01-Sep-10		1,150.00	111.49
30-Apr-10	Neutral		124.67
30-Apr-10		1,303.00	124.67
06-Oct-09	Buy		80.58
06-Oct-09		1,074.00	80.58
23-Jul-09		574.00	68.48
23-Apr-09	Reduce		49.99
23-Apr-09		422.00	49.99

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value HZ at 10x FY13F EPS of INR13.3, at INR133/share.

Risks that may impede the achievement of the target price Upside risks: 1) Zinc prices are stronger than expected: We expect Zinc prices to remain around USD2,000/t. If prices are higher, there can be potential upside to our estimates. 2) Sale of the remaining stake by the Indian government: If the Indian government agrees to sell its remaining 24.5% stake in HZ to Sterlite, the company will be able to use its cash in a more productive way, in our view. We have not built this into our estimates. Downside risks: Implementation of the mining bill is a significant risk to all mining companies in India. If implemented in the current form, this may lead to significant downward revision in consensus estimates.

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

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