

Sterlite Industries India

27 July 2012

 AsiaMoney's Brokers
 Poll 2012

Reuters: STRL.BO; Bloomberg: STLT IN

Performance In Line; Maintain Buy

Sterlite Industries India's (SIIL) 1QFY13 EBITDA was 5%/7% below our/street estimates, while PAT was 1%/5% above our/street estimates, respectively, due to higher other income and lower tax despite being hit by forex loss. Power segment posted a strong performance, while other segments like aluminium, zinc and copper witnessed minor pressure. SIIL will witness multiple expansion projects getting commissioned in the next one year, which would ensure healthy growth. We retain our Buy rating, earning estimates as well as the TP on SIIL of Rs138. Our TP is based on the combined entity, Sesa-Sterlite's valuation.

Power segment gives a positive surprise, aluminium and copper drags: Driven by lower costs due to higher power generation and better coal availability, the power segment was able to post EBITDA margin of 37.6% versus 32.4% in 4QFY12 and 27.0% in 1QFY12. Power realisation per unit increased 1% QoQ, while costs/unit dropped 6% QoQ. Aluminium segment, particularly BALCO, continued to witness high costs to the tune of 17% YoY and 7% QoQ in rupee terms due to tapering of coal linkage and higher costs of alumina due to low grade of bauxite. Copper segment also disappointed due to lower Tc/Rc margin and higher production costs.

Expansion update: BALCO is likely to start metal tapping operations at its 325,000tn smelter from 3QFY13 onwards, while the first 300MW unit of its 1,200MW power plant is set for synchronisation in 2QFY13 (deferred by a quarter). SEL's fourth unit is under trial run and the same is likely to start commercial power generation in 2QFY13. After getting environmental clearance, SIIL is looking at obtaining stage-II forest clearance for 211mt BALCO coal block, but we expect a major delay. Talwandi Sabo plant is progressing well and its first unit of 660MW is set to be synchronised at the end of 4QFY13, although we expect a delay of 3-6 months. SIIL has indicated that the new expansion plan for HZL is being prepared and would be presented in due course.

Other highlights: SIIL started an additional 700MW power transmission capacity in 1QFY13, while, it expects to commission another 1,000MW transmission capacity by 4QFY13, taking the total capacity to 2,850MW. SIIL has responded to Coal India's offer of supplying pit-stock inventory (logistics arrangements have to be made by the buyer) at the administered price. It expects 2-3mt of additional coal from this route.

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BUY

Sector: Non-Ferrous

CMP: Rs97

Target Price:Rs138

Upside: 42%

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Key Data

Current Shares O/S (mn)	3,360.6
Mkt Cap (Rsbn/US\$bn)	327.5/5.9
52 Wk H / L (Rs)	176/86
Daily Vol. (3M NSE Avg.)	7,464,927

Price Performance (%)

	1 M	6 M	1 Yr
Sterlite	(1.7)	(14.3)	(43.6)
Nifty Index	(1.5)	(2.2)	(9.5)

Source: Bloomberg

Y/E March (Rsmn)	1QFY12	4QFY12	1QFY13	YoY (%)	QoQ (%)	FY11	FY12	YoY (%)
Net sales	98,607	108,189	106,484	8.0	(1.6)	304,432	411,789	35.3
Raw material and employee costs	49,106	52,688	54,902	11.8	4.2	155,211	207,335	33.6
% of sales	49.8	48.7	51.6	-	-	51.0	50.3	-
Power and fuel expenses	7,640	9,911	11,153	46.0	12.5	23,796	38,688	62.6
% of sales	7.7	9.2	10.5	-	-	7.8	9.4	-
Other operating expenses	14,277	18,536	17,346	21.5	(6.4)	44,790	63,126	40.9
% of sales	14.5	17.1	16.3	-	-	14.7	15.3	-
EBITDA	27,583	27,054	23,083	(16.3)	(14.7)	80,635	102,640	27.3
EBITDA margin (%)	28.0	25.0	21.7	-	-	26.5	24.9	-
Depreciation	4,200	5,072	5,182	23.4	2.2	10,301	18,298	77.6
Interest costs	1,740	3,280	2,419	39.0	(26.2)	3,152	11,812	274.8
Other Income	8,416	7,035	9,484	12.7	34.8	24,723	27,599	11.6
Exceptional item	44	1,005	2,174	-	-	568	1,412	-
PBT	30,015	24,733	22,792	(24.1)	(7.8)	91,337	98,717	8.1
Provision for tax	6,137	4,867	3,339	(45.6)	(31.4)	18,117	21,106	16.5
Effective tax rate	20.4	19.7	14.7	-	-	19.8	21.4	-
PAT before MI	23,878	19,866	19,453	(18.5)	(2.1)	73,220	77,611	6.0
Minority interest (MI)	6,420	5,499	5,771	(10.1)	4.9	19,945	21,609	8.3
Profit/(loss) of associate cos	(1,061)	(1,598)	(1,666)	57.1	4.3	(2,850)	(7,723)	171.0
PAT after MI	16,397	12,769	12,016	(26.7)	(5.9)	50,425	48,279	(4.3)
EPS (Rs)	4.9	3.8	3.6	(26.7)	(5.9)	15.0	14.4	(4.3)

Source: Company

Exhibit 1: Key financials

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	246,471	304,432	411,789	432,871	474,596
YoY (%)	14.3	23.5	35.3	5.1	9.6
EBITDA	63,633	80,635	102,640	116,309	132,700
EBITDA (%)	25.8	26.5	24.9	26.9	28.0
Adj PAT	36,997	50,425	48,279	54,368	65,195
EPS (Rs)	11.0	15.0	14.4	16.2	19.4
YoY (%)	(11.9)	36.3	(4.3)	12.6	19.9
RoE (%)	8.1	9.7	8.3	8.3	8.9
RoCE (%)	10.8	12.0	12.1	12.0	12.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Our estimates versus actuals

	1QFY12	4QFY12	1QFY13	YoY (%)	QoQ (%)	1QFY13E	Dev. (%)		
Production (tn)									
Copper	74,350	80,383	88,305	18.8	9.9	80,000	10.4		
Aluminium	62,000	62,000	60,000	(3.2)	(3.2)	62,000	(3.2)		
Zinc & lead	207,780	225,000	189,000	(9.0)	(16.0)	189,000	0.0		
Zinc overseas	119,000	106,100	106,000	(10.9)	(0.1)	99,750	6.3		
Power (mu)	1,652	2,166	2,458	48.8	13.5	2,254	9.1		
Financials (Rsmn)									
Net sales	98,607	108,189	106,484	8.0	(1.6)	96,933	9.9	103,956	2.4
EBITDA	27,583	27,054	23,083	(16.3)	(14.7)	24,306	(5.0)	24,941	(7.5)
PAT	16,397	12,769	12,016	(18.5)	(2.1)	11,892	1.0	11,433	5.1

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 3: Segment-wise details

	1QFY12	4QFY12	1QFY13	YoY (%)	QoQ (%)
Revenue (Rsmn)					
Copper	45,039	49,454	51,255	13.8	3.6
Aluminium	7,567	8,687	7,805	3.1	(10.2)
Zinc & lead	38,446	40,711	36,531	(5.0)	(10.3)
Power	6,146	7,370	8,747	42.3	18.7
Other	1,629	1,659	1,898	16.5	14.4
Gross sales	98,828	107,881	106,236	7.5	(1.5)
Less: Inter-segment	588	253	322	(45.3)	27.1
Net sales	98,240	107,628	105,914	7.8	(1.6)
EBITDA (Rsmn)					
Copper	3,310	4,040	2,650	(19.9)	(34.4)
Aluminium	1,910	950	570	(70.2)	(40.0)
Zinc & lead	15,540	16,420	13,490	(13.2)	(17.8)
Power	1,660	2,390	3,290	98.2	37.7
Zinc overseas	5,170	3,690	3,370	0.0	(8.7)
EBIT (Rsmn)					
Copper	2,911	2,728	2,006	(31.1)	(26.5)
Aluminium	1,594	234	37	(97.7)	(84.2)
Zinc & lead	18,126	17,052	14,015	(22.7)	(17.8)
Power	866	1,516	1,897	119.2	25.2
Others	8,303	7,486	7,255	(12.6)	(3.1)
Total	31,799	29,016	25,211	(20.7)	(13.1)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key performance indicators

	1QFY12	4QFY12	1QFY13	YoY (%)	QoQ (%)
LME metal prices (US\$/tn)					
Copper	9,142	8,327	7,872	(13.9)	(5.5)
Aluminium	2,602	2,181	1,980	(23.9)	(9.2)
Zinc	2,249	2,028	1,929	(14.2)	(4.9)
Lead	2,546	2,092	1,976	(22.4)	(5.6)
USD/INR	44.7	50.3	54.2	21.2	7.8
Zinc segment					
Zinc - India cost (inc. royalty) (US\$/tn)	1063	995	1007	(5.3)	1.2
Zinc - International net CoP - (US\$/tn)	1,189	1,240	1,111	(6.6)	(10.4)
Copper segment					
Copper Tc/Rc margin (c/lb)	13.9	15.3	12.4	(10.8)	(19.0)
Net CoP - cathode (c/lb)	(2.9)	4.1	5.4	(286.2)	31.7
Aluminium segment					
VAL aluminium production (tn)	112,000	115,000	124,000	10.7	7.8
VAL alumina production (tn)	224,000	240,000	218,000	(2.7)	(9.2)
BALCO CoP - (US\$/tn)	1,981	1,918	1,910	(3.6)	(0.4)
VAL CoP - (US\$/tn)	2,344	1,980	1,845	(21.3)	(6.8)
VAL alumina CoP - (US\$/tn)	347	315	334	(3.7)	6.0
Power segment					
Net realisation (Rs/unit)	3.55	3.39	3.44	(3.1)	1.5
CoP (Rs/unit)	2.57	2.16	2.02	(21.4)	(6.5)

Source: Company, Nirmal Bang Institutional Equities Research

Other highlights

- The company maintained that production at zinc international operations would be around 10% lower in FY13E compared to FY12 due to deterioration in grade, which would also result in higher production costs.
- During 1QFY13, SIIL commissioned an additional 700MW transmission capacity, taking the total capacity to 1,850MW. In 4QFY13, it expects to commission an additional 1,000MW transmission capacity. These units are likely to help in achieving optimum capacity PLF (Plant Load Factor).
- The company has responded to Coal India's offer of supplying pit-stock inventory (logistics arrangement have to be made by the buyer) at the administered price. The company expects 2-3mt of additional coal from this route, which would lower the cost of power generation.
- The first 80MW unit of captive power plant at Tuticorin is expected to be synchronized in the 2QFY12.
- The company has indicated that full year Tc/Rc contracts are likely to be finalised at USc15/lb.
- Manipal bauxite mine lease has expired in July 2012 and the company has applied for the renewal of the lease. The company has stated that the public hearing was done successfully and it would be able to get all the approvals in the next three-four months.
- Vedanta Aluminium reported EBITDA of Rs830mn, which was impacted by Rs1,000mn loss on account of interest differential as per Accounting Standard 16 and Rs800mn of mark-to-market loss on creditors and loans due to foreign exchange fluctuations. Adjusted EBITDA stood at Rs2,630mn as compared to Rs2,110mn in 1QFY12 and Rs2,220mn in 4QFY12.
- The company had gross cash and cash equivalents of Rs249bn at the end of June 2012 as compared to Rs234bn at the end of March 2012.

SIIIL financials (consolidated)

Exhibit 5: Income statement

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	246,471	304,432	411,789	432,871	474,596
YoY growth (%)	14.3	23.5	35.3	5.1	9.6
Total expenses	182,838	223,797	309,149	316,563	341,897
% of sales	74.2	73.5	75.1	73.1	72.0
EBITDA	63,633	80,635	102,640	116,309	132,700
EBITDA margin (%)	25.8	26.5	24.9	26.9	28.0
Depreciation	7,498	10,301	18,298	23,069	26,854
EBIT	56,135	70,334	84,342	93,240	105,845
Interest expenses	3,993	3,152	11,812	13,025	12,736
Other income	16,660	24,723	27,599	29,447	31,957
Exceptional Loss (Gain)	2,970	568	1,412	0	0
PBT	65,832	91,337	98,717	109,662	125,067
Provision for tax	12,182	18,117	21,106	24,126	27,515
Effective tax rate (%)	18.5	19.8	21.4	22.0	22.0
PAT before MI	53,650	73,220	77,611	85,536	97,552
Minority interest	17,241	19,945	21,609	25,936	28,832
Profit from associates	588	(2,850)	(7,723)	(5,232)	(3,524)
Adj PAT	36,997	50,425	48,279	54,368	65,195
YoY growth (%)	4.5	36.3	(4.3)	12.6	19.9
PAT margin (%)	15.0	16.6	11.7	12.6	13.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance Sheet

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Share capital	1,681	3,361	3,361	3,361	3,361
Reserves and surplus	368,439	410,994	457,198	501,340	554,737
Shareholders' funds	370,120	414,355	460,559	504,702	558,098
Short-term loans	54,676	55,398	55,500	56,000	56,500
Long-term loans	37,924	61,889	89,223	88,723	88,223
Minority interest	84,096	102,913	121,990	147,926	176,758
Deferred tax	15,524	21,736	22,083	22,806	23,632
Total capital employed	562,340	656,291	749,355	820,157	903,211
Gross block	181,789	311,886	371,730	438,410	568,410
Less: Acc depreciation	59,133	97,912	116,210	139,279	166,133
Net block	122,656	213,974	255,520	299,131	402,277
Capital WIP	110,844	121,501	120,109	126,429	60,829
Net fixed assets	233,500	335,475	375,629	425,561	463,106
Investments	203,045	129,553	176,232	171,000	167,475
Cash and bank balances	33,378	99,124	85,392	133,707	181,208
Inventories	29,827	51,547	44,981	64,034	65,797
Debtors	5,709	15,950	18,182	23,226	24,055
Other CA and loans & adv	106,200	112,770	154,412	104,451	106,110
Total CA and loans & adv	175,114	279,391	302,966	325,418	377,170
Creditors	28,827	55,246	73,562	69,279	71,185
Other Current Liabilities	9,280	12,293	16,148	15,207	15,626
Provisions	11,212	20,590	15,763	17,336	17,729
Net current assets	125,795	191,263	197,493	223,596	272,630
Total assets	562,340	656,291	749,355	820,157	903,211

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Cash flow

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
EBIT	56,135	70,334	84,342	93,240	105,845
(Inc./)dec in working capital	(8,487)	(3,154)	(44,337)	20,639	(1,926)
Cash flow from operations	47,648	67,180	40,005	113,879	103,920
Other income	16,660	24,723	27,599	29,447	31,957
Depreciation	7,498	10,301	18,298	23,069	26,854
Interest paid (-)	3,993	3,152	11,812	13,025	12,736
Tax paid (-)	11,549	17,346	20,472	23,402	26,689
Dividends paid (-)	4,352	5,018	8,259	8,652	11,405
Net cash from operations	51,912	76,689	45,359	121,315	111,901
Capital expenditure (-)	61,819	126,923	58,452	73,000	64,400
Net cash after capex	(9,907)	(50,234)	(13,094)	48,315	47,501
Inc./(dec.) in short-term debt	3,605	722	102	500	500
Inc./(dec.) in long-term debt	18,860	23,965	27,334	(500)	(500)
(Inc./)dec. in investments	(40,269)	70,981	(16,898)	0	0
Equity issue/(buyback)	76,248	(16)	0	0	0
Cash from financial activities	58,444	95,652	10,538	0	0
Others	(70,208)	20,329	(1,412)	0	0
Opening cash	55,048	33,378	99,124	85,392	133,707
Closing cash	33,378	99,124	85,392	133,707	181,208
Change in cash	(21,671)	65,747	(13,732)	48,315	47,501

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Key ratios

Y/E March	FY10	FY11	FY12	FY13E	FY14E
Per share (Rs)					
EPS	11.0	15.0	14.4	16.2	19.4
Book value	110.1	123.3	137.0	150.1	166.0
Return ratios (%)					
RoCE	10.8	12.0	12.1	12.0	12.2
RoE	8.1	9.7	8.3	8.3	8.9
Margin ratios (%)					
EBITDA margin	25.8	26.5	24.9	26.9	28.0
PBIT margin	22.8	23.1	20.5	21.5	22.3
PBT margin	26.7	30.0	24.0	25.3	26.4
PAT margin	15.0	16.6	11.7	12.6	13.7
Turnover ratios					
Asset turnover ratio (x)	1.4	1.0	1.1	1.0	0.8
Avg collection period (days)	8.5	19.2	16.2	19.8	18.7
Avg payment period (days)	57.5	140.1	140.4	79.9	76.0
Solvency ratios (x)					
Debt-equity	0.3	0.3	0.3	0.3	0.3
Interest coverage ratio	15.9	25.6	8.7	8.9	10.4

Source: Company, Nirmal Bang Institutional Equities Research

Ratings track

Date	Rating	Market price (Rs)	Target price (Rs)
17 April 2012	Buy	106	144
26 April 2012	Buy	108	140
20 June 2012	Buy	94	138

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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