

Investment Ideas

STERLITE INDUSTRIES (INDIA) LTD

BUY

Sterlite Industries (India) Limited, India's largest non-ferrous metals and mining company, has significant presence in copper, zinc & lead and aluminium. The company is pursuing capacity expansion in all the three businesses. It has also forayed into commercial energy to leverage its experience of captive power plants.

- The company plans to double the copper smelting capacity to 800,000tpa, representing about 10% of the world's copper capacity. The company's zinc subsidiary, Hindustan Zinc Limited (HZL) is also India's only fully integrated zinc producer, with a 74% Indian market share by production volume.
- The company is setting up a 2,400MW independent power plant through Sterlite Energy Limited. The first 600MW power plant is expected to start production from September 2010.
- The company's Q1FY11 revenues grew 30.6% Y-o-Y to Rs59bn on account of increased metal prices, higher zinc and silver sales and increased by-product realizations.
- The company has a strong cash position with consolidated cash and liquid investments as at 30th June 2010 at Rs 248.7bn, which eases funding concerns with respect to minority stake buyouts at HZL and BALCO.
- We estimate Sterlite Industries (India) Ltd's revenues to grow at a CAGR of 22% over FY2010-12 to Rs 363bn by FY2012. We further estimate that the PAT would grow at a CAGR of 43.2% over FY2010-12 to Rs 76.7bn in FY2012 from Rs 37.4bn in FY2010.

Based on a consolidated FY12 EV/EBITDA multiple of 6, the fair value for the company works out to Rs 230.

Financial Snapshot

Projections (Rs Mn)	FY08A	FY09A	FY10A	FY11E	FY12E
Revenue	247,243	211,358	244,157	284,931	363,572
Y-o-Y Growth %	1.4%	-14.5%	15.5%	16.7%	27.6%
EBIDTA	93,677	69,135	77,340	84,979	114,932
Y-o-Y Growth %	-6.2%	-26.2%	11.9%	9.9%	35.2%
PAT after MI & EO	43,994	35,400	37,437	55,587	76,778
Y-o-Y Growth %	0.3%	-19.5%	5.8%	48.5%	38.1%
EPS Rs	15.5	12.5	11.1	16.5	22.8
BVPS Rs	78.7	90.4	110.1	126.6	149.5
EBIDTA %	37.9%	32.7%	31.7%	29.8%	31.6%
NPM %	17.8%	16.7%	15.3%	19.5%	21.1%
ROE %	19.7%	13.8%	10.1%	13.1%	15.3%
PER x				10.8	7.8
P/B Ratio				1.4	1.2

* EPS & BVPS adjusted for stock-split & bonus issue

Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

Strong Buy – Expected Returns > 20% p.a.

Buy – Expected Returns from 10 to 20% p.a.

Hold – Expected Returns from 0 % to 10% p.a.

Reduce – Expected Returns from 0 % to 10% p.a. with possible downside risk

Sell – Returns < 0 %



STOCK DATA

BSE / NSE Code	500900/ STER
Bloomberg Code	STLT IN EQUITY
No. of Shares (Mn)	3,361.6
Sensex / Nifty	18,217 / 5,468

PRICE DATA

CMP Rs (4th Aug' 10)	178.2
Beta	1.7
Market Cap (Rs mn)	598,869
52 Week High-low	232 - 136.85
Average Daily Volume	688,996

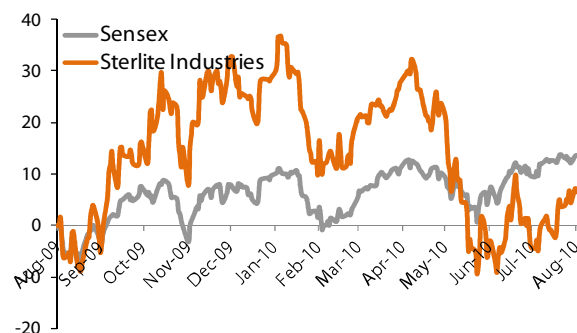
STOCK RETURN (%)

	30D	3M	6M	1Y
Sterlite Industries	11%	-8%	-5%	6%
Sensex	4%	6%	12%	15%
Nifty	4%	6%	13%	17%

SHARE HOLDING PATTERN (%)

Promoter	52.8
Institution	35.1
Non Institution	12.1
Total	100.0

1 Year Price Performance (Rel. to Sensex)



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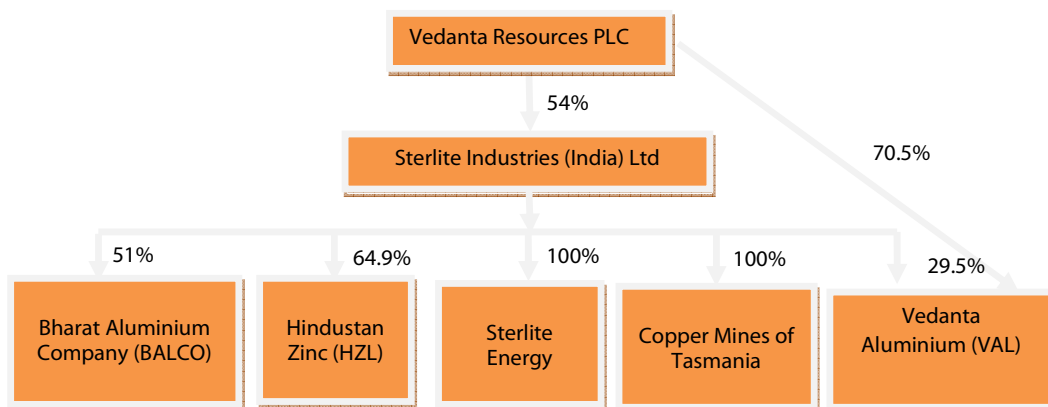


BUSINESS PROFILE

Sterlite Industries (India) Ltd is India's largest non-ferrous metals and mining company with interests and operations in aluminium, copper, zinc and lead and power. It is a 54% subsidiary of Vedanta Resources plc, a London-based diversified FTSE-100 metals and mining group. Sterlite's main subsidiaries are Hindustan Zinc Limited (HZL) for its zinc and lead operations; Copper Mines of Tasmania Pty Limited for its copper operations in Australia; and Bharat Aluminium Company Limited (BALCO) & Vedanta Aluminium Ltd (VAL) for its aluminium operations. HZL is the world's largest and India's only fully integrated zinc producer with a 74% market share by production volume of the Indian zinc market. The company has significant size and scale in all the base metals. It is the third-largest aluminum company in India, second-largest in copper and the largest in zinc. The company is also expanding its aluminium business through 29.5% minority interest in VAL, a majority-owned subsidiary of Vedanta Resources, which has plans to be a fully integrated alumina and aluminum producer with a 1mtpa. The company also operates its own copper operations in India, apart from the copper mines at Australia, which cater about 7% of its concentrate requirements. The company has exercised the call option to acquire the minority stake of Government of India in HZL & BALCO but the same is under dispute and arbitration.

Sterlite Industries is the largest zinc and second largest copper producer in India.

In May 2010, the company announced its entry into the port business and set up a joint venture with Leighton Contractors (26% stake, balance 74% with Sterlite) and has won a contract from the Vizag Port Authorities to develop a coal berth at Vizag with an estimated cost of Rs 5bn, likely to be completed in mid 2012.



Capacity Build-up and Commercial Energy business to provide growth

The company's expansion projects in all the businesses are progressing well. On the zinc and lead business, the 210,000tpa zinc smelter at Dariba and the 1mtpa zinc concentrator at Rampura Agucha were commissioned during the end of Q4 FY10 increasing the total smelting capacity to 964,000tpa. The 0.1mtpa lead capacity expansion, expected to be completed in Q2FY11 will make it the world's largest integrated zinc-lead producer with a total smelting capacity of 1.064mtpa. The Copper smelter expansion project of 400,000tpa at Tuticorin is expected to be completed in mid CY11, which would double the capacity to 800,000tpa. The BALCO smelter III project of 325,000 TPA will also commence in Q4 FY11.

Capacity Expansion and ramp-up in merchant power sales to provide growth

The company has forayed into the commercial energy business and is in the process of setting up a 2,400MW independent power plant through its wholly owned subsidiary, Sterlite Energy Limited (SEL). The first 600MW power plant of SEL started operations in Q1FY11 and commercial production is expected from September 2010. The remaining three units are expected to be progressively synchronized by end-Q1FY12.

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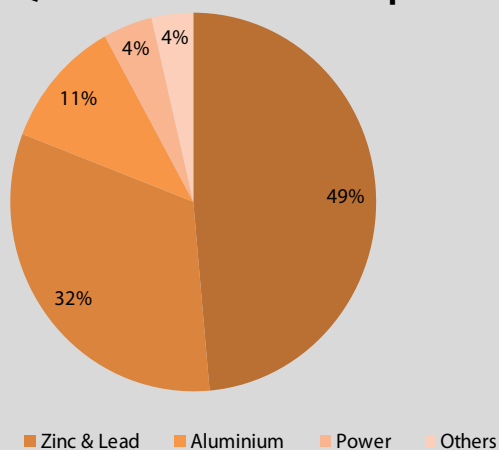
BUSINESS PERFORMANCE

Strong Revenue Growth ahead....

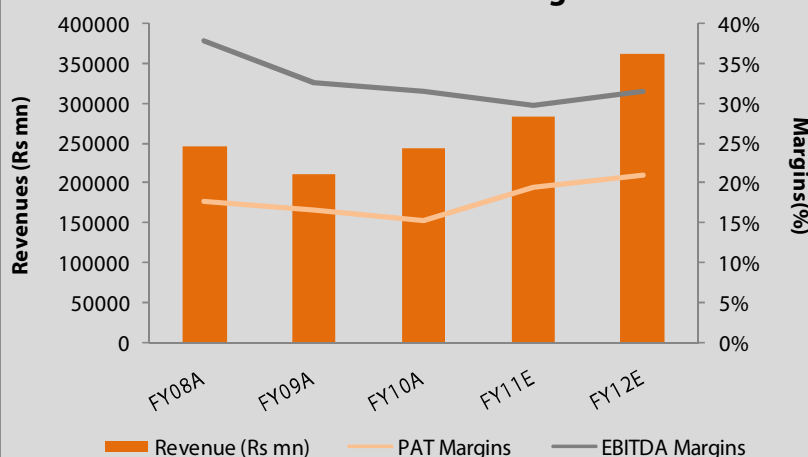
The consolidated revenue of Sterlite Industries for Q1 FY11 surged 30% Y-o-Y to Rs 59bn but were down 17% Q-o-Q. The revenue from Copper and Zinc & Lead segment was higher by 34% and 29% Y-o-Y respectively on the back of higher metal prices, while that in the power segment was higher due to higher units sold. During Q1 FY11, the company sold 480mn units of power, compared with 287mn units in corresponding previous quarter. PAT attributable to consolidated group stood at Rs 10bn, 50% higher on Y-o-Y basis on higher other income. VAL also produced 203,000tpa of alumina and reported EBITDA of Rs1.4bn during the quarter.

Net Profit is expected to grow at a CAGR of 43.2% over FY2010-12

Q1FY11 Revenue Break-up



Annual Revenues & Margins



Peer Group Comparison

Companies	Revenue (Rs. mn)	EBIDTA Margin (%)	PAT Margin (%)	ROE %	P/E (x)	P/B (x)	CMP (Rs.)	FV (Rs.)
Sterlite Industries	244,157	32%	15%	10%	16.0	1.6	178	1.0
Hindalco Industries	605,625	17%	6%	20%	7.5	1.5	165	1.0
Hindustan Copper	13,045	18%	12%	14%	275.5	37.9	460	5.0

** FY10 consolidated figures*

Peer Comparison

The company has the highest profitability margins. We believe that the steady progress on the capacity expansion projects will lead to higher revenue growth for the company. Further, the increase in merchant power sales will also help the bottom line growth. Moreover, the settlement of the BALCO and Hindustan Zinc (HZL) call option and the grant of the Niyamgiri mining clearance would be the key positive developments for the company in the near term.

Settlement of call options for BALCO & HZL and ramp-up in power sales to help

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VALUATION

We estimate Sterlite Industries (India) Ltd's revenues to grow at a CAGR of 22% over FY2010-12 to Rs 363bn by FY2012. We further estimate that the PAT would grow at a CAGR of 43.2% over FY2010-12 to Rs 76.7bn in FY2012 from Rs 37.4bn in FY2010.

Based on a consolidated FY12 EV/EBITDA multiple of 6, the fair value for the company works out to Rs 230.

Based on a consolidated FY12 EV/EBITDA multiple of 6, the fair value for the company works out to Rs 230.

We recommend a **'BUY'** rating on the stock.

Financial Analysis and Projections

Particulars (Rs Mn)	FY08A	FY09A	FY10A	FY11E	FY12E
Net Revenue	247,243	211,358	244,157	284,931	363,572
Other Income	15,623	23,616	19,594	15,367	16,476
Total Income	262,866	234,974	263,750	300,298	380,048
Operating Expenditure	169,190	165,839	186,411	215,319	265,115
Depreciation	5,949	7,007	7,498	8,773	9,825
EBIT	87,727	62,128	69,842	76,207	105,107
EBIT Margin (%)	35.5%	29.4%	28.6%	26.7%	28.9%
Interest	3,051	3,973	3,424	4,328	5,652
Profit Before Tax	84,677	58,156	66,418	71,879	99,455
Less: Tax	21,025	8,548	12,328	14,376	20,885
Profit After Tax	63,652	49,607	54,091	57,503	78,569
Minority Interest	19,658	14,207	16,653	1,916	1,791
PAT After MI & EO	43,994	35,400	37,437	55,587	76,778
PAT Margin (%)	17.8%	16.7%	15.3%	19.5%	21.1%
ROE (%)	19.7%	13.8%	10.1%	13.1%	15.3%
EPS (Rs)	15.5	12.5	11.1	16.5	22.8
BVPS (Rs)	78.7	90.4	110.1	126.6	149.5

Fair Value Calculation

EV / EBITDA multiple	6.0
FY12E EBITDA (Rs mn)	114,932
EV (Rs mn)	689,594
Less: FY12E Net Cash (Rs mn)	83,391
Equity Value (Rs mn)	772,985
Fair Value (Rs per share)	230

Valuation Ratios (x)

	FY11E	FY12E
P/E	10.8	7.8
P/B	1.4	1.2

* EPS & BVPS adjusted for stock-split & bonus issue

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Board Of Directors

Director Name	Current Position	Description
Anil Agarwal	Chairman	Mr. Agarwal, who founded the Vedanta/Sterlite group in 1976, is the Chairman and was appointed to the Board of Directors in 1978. Based in the United Kingdom, he is also the Executive Chairman of Vedanta Resources Plc and the Director of BALCO, HZL, VAL. He has over 30 years of experience as an industrialist and has been instrumental in the growth and development since the company's inception.
Navin Agarwal	Executive Vice Chairman	Mr. Agarwal was appointed to the Board of Directors in August 2003. His responsibilities include executing the business strategy and monitoring the overall performance and growth of the organisation. Mr Agarwal has been with the Company since its inception. He is also the Chairman of KCM and MALCO, Deputy Executive Chairman of Vedanta Resources Plc and Director BALCO, HZL, VAL. Mr Navin Agarwal has over 20 years of experience in strategic management. He holds a Bachelor of Commerce degree from Sydenham College, Mumbai, and has also completed the Owner/President Management Program at Harvard University.
Gautam Doshi	Non- Executive Director	Mr. Doshi, is an Independent Nonexecutive Director and was appointed to the Board of Directors in December 2001. Since August 2005, he has been employed with Reliance ADA Group Private Limited. Before that, he was a partner of RSM & Co. in India from September 1997 to July 2005. Mr Doshi has 24 years of experience in audit, finance and accounting. Mr Doshi is a Fellow Member of the Institute of Chartered Accountants of India and was a member of the Central Council and the Western India Regional Council of the Institute of Chartered Accountants of India.
Berjis Desai	Non- Executive Director	Mr. Desai, is a Non-executive Director and was appointed to the Board of Directors in January 2003. He holds a Masters Degree in law from the University of Cambridge and has been the managing partner of Messrs J. Sagar Associates since 2003. His expertise lies in laws relating to mergers and acquisitions, securities, international commercial arbitration and in financial and international business law. Before 2003, he was a partner at Messrs Udwadia, Udeshi & Berjis.
Sandeep Junnarkar	Non- Executive Director	Mr. Junnarkar, is the Non-executive Director and was appointed to the Board of Directors in June 2001. He is a solicitor and a partner of Messrs Junnarkar & Associates. Earlier, he was a partner at Messrs Kanga & Co. from 1981 to 2002. Mr Junnarkar specializes in banking and corporate law. He has a Bachelor of Science (Honours) degree followed by a Bachelor of Law degree, both from the University of Mumbai and is a member of the Bombay Incorporated Law Society.
D D Jalan	Whole-time Director	Mr Jalan joined Sterlite Industries in 2001 as President – Australian Operations, responsible for TCM and CMT mines. He has over 27 years of experience with various companies in the engineering, mining and non-ferrous metal sectors. Mr Jalan has been associated with the Aditya Birla Group in various capacities and, from 1996 to 2000, was in charge of commercial and financial activities at the copper smelter business of Indo-Gulf Fertiliser Ltd. Mr Jalan is a member of the Institute of Chartered Accountants of India.

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