

Sterlite Industries

₹ 78

Beginning to Merge

Accumulate



Aug 16, 2013

Company Background

Sterlite Industries India Limited (Sterlite) is a subsidiary of Vedanta Resources PLC, a diversified and integrated FTSE 100 metals and mining company, with principal operations located in India and Australia. Sterlite's principal operating companies comprise Hindustan Zinc Ltd. for its fully integrated zinc and lead operations; Sterlite and Copper Mines of Tasmania Pty Ltd (CMT) for its copper operations in India/Australia; Bharat Aluminium Company (BALCO), for its aluminium and alumina operations and Sterlite Energy for its commercial power generation business. Sterlite is India's largest non-ferrous metals & mining company & is one of the fastest growing private sector companies. Sterlite is listed on BSE, NSE and NYSE. It is first Indian Metals & Mining Co. listed on NYSE.

Key Highlights

- ➔ **BALCO** : CoP increased INR3701/t to INR108,233/ton due to further tapering of linkage coal as well as maintenance shutdown of one of the units of 540MW. New smelter of 325ktpa is expected to commence operation in Q3, while 1200mw power plant is awaiting consent to operate. Coal mine is now expected to commence operation in 1QFY15 vs earlier guidance of 2QFY14.
- ➔ **Sterlite Energy** : Power sales increased 20% to 2604m kwh. All 4 units operated at 54% PLF during the quarter. The PLF is expected to improve in 2HFY14 and is expected to average 65% in FY14. Talwandi Saboo's first unit is expected to be synchronized in the Q3FY14.
- ➔ The Madras High Court has approved Merger of Company with Sesa Goa Ltd.
- ➔ The first 80MW unit of the Tuticorin 160MW power plant has stabilized & now at full capacity. The second 80MW unit is to be commissioned in Q2FY14.
- ➔ For FY14, the company expects production at Zinc International to total 390-400kt with CoP at US\$ 1,100-1,200/t.
- ➔ On mining of bauxite at Niyamgiri, the Supreme Court has directed the Orissa government to place the unresolved issues and claims before the Gram Sabha, which in turn will communicate its decision to the Ministry of Environment & Forests (MoEF) within three months. The MoEF will then have two months to take a final decision for grant of final stage forest clearance for mining project.

Key Financials

| Year Ended 31 st | Mar 10 | Mar 11 | Mar 12 |
|-----------------------------|-----------|-----------|-----------|
| Revenue (INR mn) | 145,290.1 | 170,362.5 | 208,063.6 |
| Rev. growth (%) | 15.16 | 17.26 | 22.13 |
| EBITDA (INR mn) | 14,211.3 | 24,657.0 | 34,208.1 |
| Net profit (INR mn) | 8,241.3 | 14,197.1 | 16,574.8 |
| Shares outstanding (mn) | 840.4 | 3,361.2 | 3,361.2 |
| EPS (INR) | 9.8 | 4.2 | 4.9 |
| EPS growth (%) | (43.81) | (56.93) | 16.75 |
| P/E (x) | 21.6 | 41.1 | 22.5 |
| RONW (%) | 6.0 | 6.2 | 8.7 |
| ROCE (%) | 4.8 | 5.0 | 7.0 |

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Info Codes

| | |
|-----------|-----------|
| Reuters | : STRL.BO |
| Bloomberg | : STLT@IN |
| NSE | : STER |
| BSE | : 500900 |

Market Data

| | |
|----------------------|-----------|
| 52 Wk Range (₹) | : 81 / 75 |
| Shares in Issue (mn) | : 93.1 |
| Mkt. Cap (₹ bn) | : 254.9 |
| BSE 2 Wk Avg Vol | : 447000 |

Share Holding Pattern (%)

| | |
|-----------|---------|
| Promoters | : 53.31 |
| DII's | : 09.09 |
| FII's | : 14.05 |
| Others | : 23.55 |

Investment Theme

Sterlite earnings are likely to be driven by volume growth in the zinc and lead business. Zinc & lead smelting capacity, after expansion in FY12, is 1.064mtpa, and Sterlite is planning to expand its mining capacity to 1.2mtpa over the next six years. The 350tpa silver refinery that was commissioned in 3QFY12 is also adding to margins. BALCO's 1,200MW power plant and 325ktpa Korba-III smelter will get commissioned in the next few quarters. Also, it received stage-II forest clearance for the 211mt captive coal block. Expanded aluminum capacity with captive coal block will also boost profitability, going forward. Post the impending merger of SESA-STERLITE, it is expected that zinc and oil assets will provide stable returns while the power and aluminium businesses will drive profitability further.

High Profits ahead!

Financial Statements

Income Statement

(₹ mn)

| Year end | Mar 10 | Mar 11 | % Chg | Mar 12 | % Chg |
|----------------------|----------|----------|---------|----------|---------|
| Total Sales + Excise | 136764.7 | 162667.4 | 18.94 | 190510.5 | 17.12 |
| Other Income | 11327.6 | 17301.6 | 52.74 | 22882.0 | 32.25 |
| Change in Stocks | 3397.9 | 2960.0 | (12.89) | 689.7 | (76.70) |
| Raw Material Con. | 123466.3 | 140810.4 | 14.05 | 161715.4 | 14.85 |
| Employee Exp. | 772.8 | 880.5 | 13.94 | 920.9 | 4.59 |
| Indirect Taxes | 5636.2 | 9640.6 | 71.05 | 9616.8 | (0.25) |
| Other Exp. | 7403.6 | 6940.5 | (6.26) | 7621.0 | 9.80 |
| Operating Exp. | 133881.0 | 155312.0 | 16.01 | 179184.4 | 15.37 |
| Operating Profit | 2883.7 | 7355.4 | 155.07 | 11326.1 | 53.98 |
| Total Interest | 2920.4 | 4136.5 | 41.64 | 12238.9 | 195.88 |
| Gross Profit | 11290.9 | 20520.5 | 81.74 | 21969.2 | 7.06 |
| Net Dep. | 1713.8 | 1719.3 | 0.32 | 1782.6 | 3.68 |
| Total Taxation | 1335.8 | 4604.1 | 244.67 | 3611.8 | (21.55) |
| Net Profit/Loss | 8241.3 | 14197.1 | 72.27 | 16574.8 | 16.75 |

4 Years Balance Sheet

(₹ mn)

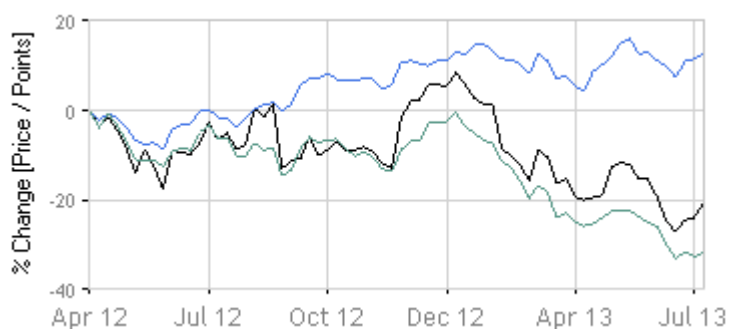
| Balance Sheet as on 31 st | Mar 09 | Mar 10 | Mar 11 | Mar 12 |
|--------------------------------------|------------------|------------------|------------------|------------------|
| SOURCES OF FUNDS | 178,690.6 | 275,576.8 | 289,701.9 | 300,591.5 |
| Equity Share capital | 1,417.0 | 1,680.8 | 3,361.2 | 3,361.2 |
| Share Application Money | 0.0 | 0.0 | 0.0 | 0.0 |
| Preference Share Capital | 0.0 | 0.0 | 0.0 | 0.0 |
| Reserves & Surplus | 138,973.2 | 220,674.0 | 228,730.3 | 243,896.7 |
| Long Term Loans | 1,575.9 | 24,815.9 | 21,552.8 | 22,841.1 |
| Short Term Loans | 36,724.5 | 28,406.1 | 36,057.6 | 30,492.5 |
| USES OF FUNDS | 178,690.6 | 275,576.8 | 289,701.9 | 300,591.5 |
| Gross Block | 28,044.2 | 28,800.2 | 28,914.9 | 29,598.1 |
| Less : Revaluation Reserves | 8.2 | 326.0 | 197.5 | 115.9 |
| Less : Accumulated Depreciation | 11,907.6 | 13,364.0 | 14,414.8 | 15,779.3 |
| Net Block | 16,128.4 | 15,110.2 | 14,302.6 | 13,702.9 |
| Capital Work in Progress | 321.6 | 2,830.1 | 4,374.2 | 8,209.1 |
| Investments | 129,968.8 | 109,841.7 | 62,378.5 | 85,369.7 |
| Current Assets | 52,178.1 | 169,228.6 | 251,639.5 | 235,856.1 |
| Less : Current Liabilities | 19,906.3 | 21,433.8 | 42,992.9 | 42,546.3 |
| Total Net Current Assets | 32,271.8 | 147,794.8 | 208,646.6 | 193,309.8 |
| Misc. Expenses not written | 0.0 | 0.0 | 0.0 | 0.0 |
| NOTE | | | | |
| Bk Val Unquoted Investments | 66,302.7 | 53,304.6 | 31,175.0 | 56,926.0 |
| Mkt Val. Quoted Investments | 63,666.1 | 56,537.1 | 249.1 | 1,182.5 |
| Contingent Liabilities | 67,030.3 | 99,869.8 | 191,442.0 | 189,188.8 |
| Dividend (%) | 175 | 188 | 110 | 200 |

Quarterly Income Sheets

(₹ mn)

| Quarter Ended | Sep 12 | Dec 12 | Mar 13 | Jun 13 |
|-----------------------|-----------|-----------|------------|------------|
| Net Sales | 48,636.40 | 45,363.70 | 49,599.40 | 11,862.00 |
| Cost Of Sales | 46,180.20 | 44,990.30 | 46,577.90 | 14,831.40 |
| Operating Profit | 2,456.20 | 373.40 | 3,021.50 | (2,969.40) |
| Recurring Income | 7,728.90 | 7,875.90 | 4,073.10 | 8,566.80 |
| Adjusted PBDIT | 10,185.10 | 8,249.30 | 7,094.60 | 5,597.40 |
| Financial Expenses | 1,150.40 | 1,448.10 | 2,049.40 | 2,667.30 |
| Depreciation | 366.80 | 435.20 | 465.00 | 443.00 |
| Other Write Offs | 0.00 | 0.00 | 0.00 | 0.00 |
| Adjusted PBT | 8,667.90 | 6,366.00 | 4,580.20 | 2,487.10 |
| Tax Charges | 1,620.20 | 947.60 | 727.00 | 251.10 |
| Adjusted PAT | 7,047.70 | 5,418.40 | 3,853.20 | 2,236.00 |
| Non Recurring Items | 0.00 | 0.00 | (1,000.00) | 0.00 |
| Other Non Cash Adjust | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Profit | 7,047.70 | 5,418.40 | 2,853.20 | 2,236.00 |

52 Week Index Relative Percentage Appreciation



Sterlite vs SENSEX vs Metal

Consider This

- ➔ Copper smelter was shut for most of the quarter on the instruction of TNPCB. As a result, copper production declined 81% QoQ. EBIT during the quarter was INR509m loss due to fixed costs, which was partially offset by sale of surplus power. First unit of 80MW CPP is operational resulting in power sales of 137mKwh. Second unit of 80MW is expected to commence operations in the current quarter.
- ➔ National Green Tribunal (NGT) allowed Tuticorin smelter to restart on 23rd June, 2013. It is expected to operate at 85-90kt per quarter for rest of the year, while TcRc is expected to be 16 cents.
- ➔ Mine metal content at Australian mines are expected to be 25-26kt for FY14.
- ➔ The total production of Zinc International declined 12% QoQ to 90kt due to disruption caused by accidents at Lisheen and BMM. It is on target to deliver 390kt-400kt of metal in FY14. Cost of production (CoP) is expected to remain stable.
- ➔ The cost of production of VAL declined by INR3762/t to INR93,734 (USD1675) per ton due to improved operating efficiencies and reduction in cost of consumables. Interest cost pertaining to phase-2 project is no longer capitalized despite project being put on hold. This will have an impact of around INR12b on annual basis. External debt of INR50b was swapped by ICD from Sterlite Inds. The latter funded the ICD by borrowing at lower interest rate resulting in savings of 2.5% at group level.
- ➔ Although post merger, the group structure will be little simpler, yet the uncertainty remains regarding servicing of large debt on the standalone balance sheet of merged Sesa-Goa because the cash surpluses at HZL and Cairn India are not fungible. However, the valuation of Sesa-Sterlite is not demanding.

In a Nutshell

Sterlite Industries is a diversified play on three base metals. It has ramped up refined zinc and lead capacities to 1.06mtpa, which will fuel significant volume growth. Company has setup a 2,400MW power project in Odisha. The project is in close proximity to coal mines and Sterlite will soon replace coal linkages with coal from its captive mines. Given its low cost of production and strong demand, the project will drive earnings. Sterlite has planned aggressive expansion in the aluminum business through its 51% stake in BALCO and 29.5% stake in VAL. Sterlite's principal operating companies comprise Hindustan Zinc Limited (HZL) for its fully integrated zinc and lead operations; Sterlite and Copper Mines of Tasmania Pty Limited (CMT) for its copper operations in India/Australia; and Bharat Aluminium Company (BALCO), for its aluminium and alumina operations and Sterlite Energy for its commercial power generation business. Sterlite is India's largest non-ferrous metals and mining company and is one of the fastest growing private sector companies. Sterlite is listed on BSE, NSE and NYSE. It was the first Indian Metals & Mining Company to list on the New York Stock Exchange. Sterlite has continually demonstrated its ability to deliver major value creating projects, offering unparalleled growth at lowest costs and generating superior financial returns for its shareholders. At the same time, it ensures that its expansion projects meet high conservative financial norms and do not place an unwarranted burden on its balance sheet and financial resources. A majority of company's operations are certified to the International Standards like ISO 9001, ISO 14001 and OHSAS 18001. Taking this into account we feel the prospects are bright for the company.

Indira Group Offices

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Rating Interpretation

| | | | |
|-------------------|---|-------------------|---|
| Buy | : Expected to appreciate 20% or more over 12-months | Reduce | : Expected to depreciate up to 10% over 12-months |
| Accumulate | : Expected to appreciate 10% to 20% over 12-months | Sell | : Expected to depreciate 10% or more over 12-months |
| Trade Buy | : Expected to appreciate more than 10% over 45-days | Trade Sell | : Expected to depreciate more than 10% over 45-days |

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