



INDIA PRIVATE CLIENTS

Weekly Wrap

January 07, 2011

Investment ideas

Sterlite Industries

BUY
CMP Rs175

Base metal prices to remain high

Base metals have performed extremely well this year, led by ample liquidity globally and production discipline maintained by the producers. Prices have also rallied on expectations of a revival in demand from developed nations and continued strong demand from emerging markets. We believe prices would remain high in the near term as liquidity situation remains fine led by the quantitative easing measures taken by the various Central banks. However, we expect the upside to be capped as interest rates harden in China and major emerging markets and excess capacity persisting in the system.

Operating profit to jump 37% over FY10-12E

Hindustan Zinc Ltd (HZL) is on the verge of completion of its expansion project to 1mn tons of zinc and lead capacity. We expect a jump of 47% in production volumes over the period FY10-12E. On the back of captive resources and operational efficiencies the company lies in the lowest quartile of the cost curve. This coupled with an increase in silver production would boost the company's profitability over the period FY10-12E. We expect HZL's operating profit to increase by 36.7% over FY10-12 on the back of strong volume growth and higher by-product credits.

VAL's delayed capex to enable higher power merchant sales

We believe the delay in the aluminium expansion plans would reopen an opportunity for SEL to tap the merchant power market instead of selling to VAL under a long-term pricing agreement. In addition, the company will also have surplus power sales from the captive units associated with the aluminium plants under BALCO. We expect contribution of power to jump over the next two years.

Power and zinc to drive earnings, Recommend BUY

Sterlite has underperformed the broader markets and its peers over the last one year on the back of regulatory restrictions on the company's operations in Orissa and Tuticorin. However, any breakthrough in the arbitration proceedings for its proposed acquisition of the government's minority stakes in BALCO and HZL would be a positive trigger for the company. We believe going forward Sterlite's earnings will be boosted by strong numbers from the power and zinc division. We believe that the stock has limited downside and recommend a BUY rating on the stock.

Valuation summary

Y/e 31 March (Rs m)	FY09	FY10	FY11E	FY12E
Revenues	211,443	244,104	304,290	407,343
yoy growth (%)	(14.4)	15.4	24.7	33.9
Operating profit	47,110	60,870	82,642	130,520
OPM (%)	22.3	24.9	27.2	32.0
Pre-exceptional PAT	34,915	37,284	43,383	76,777
yoy growth (%)	(21.6)	6.8	16.4	77.0
EPS (Rs)	12.3	11.1	12.9	22.8
P/E (x)	14.2	15.8	13.6	7.7

Source: Company, India Infoline Research

Petronet LNG

BUY
CMP Rs122

Gas demand-supply balance favours Petronet

The demand-supply balance for natural gas in the country is expected to be stretched over the next few years as 1) demand growth is likely to remain strong with newer applications across industries, 2) peak production from RIL's KG-D6 field delayed and 3) no other major gas field going into production in the medium term. This we believe would translate into strong demand for LNG. With Petronet LNG (PLNG) having tied up 7.5mtpa for Dahej and 1.5mtpa for Kochi, it is well poised to gain on the increasing gas deficit.

Expanding capacities at opportune time

PLNG has doubled its re-gasification capacity at the Dahej terminal from 5mtpa in FY08 to 10mtpa in FY10. Furthermore, the effective capacity is likely to increase by 2.5mtpa to 12.5mtpa in FY11. Kochi terminal having an initial capacity of 2.5mtpa is expected to commence operations in FY14E. The capacity can be further scaled up to 5mtpa.

Port and power projects to aid growth

PLNG is currently setting up a solid cargo port through a JV company; Adani Petronet (Dahej) port, where it has a 26% stake. The project is scheduled to be completed by H2 CY10 and involves an investment of US\$270mn (PLNG's equity share of US\$26mn). The company also plans to set up a 1,200MW gas based power plant at Dahej. The construction of the project is likely to commence in CY11. These projects, we believe, would be earnings and value accretive over the medium term.

Strong earnings visibility

PLNG has long term sale and purchase agreement for 7.5mtpa of LNG with Rasgas of Qatar. On the customer side, it has offtake agreement with GAIL, IOC and BPCL. This provides a strong revenue visibility for PLNG over the longer term. Further, with limited threat to re-gasification margins, earnings visibility is also robust. Over FY10-13E we expect revenue CAGR of 19.1% and PAT CAGR of 21.7%.

Valuation summary

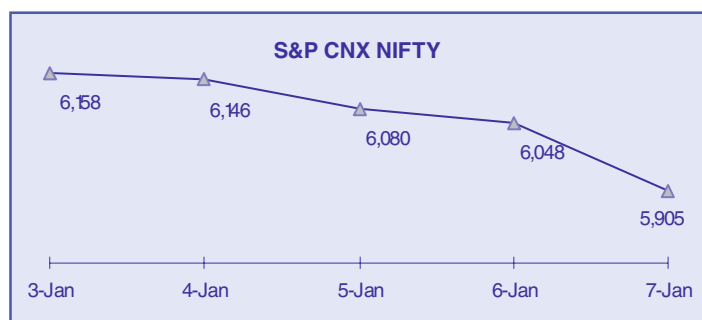
Y/e 31 March (Rs m)	FY09	FY10	FY11E	FY12E
Revenues	84,287	106,491	123,333	165,984
yoy growth (%)	28.6	26.3	15.8	34.6
Operating profit	9,013	8,465	11,198	14,562
OPM (%)	10.7	7.9	9.1	8.8
Reported PAT	5,184	4,045	4,714	5,484
yoy growth (%)	9.2	(22.0)	16.5	16.3
EPS (Rs)	6.9	5.4	6.3	7.3
P/E (x)	17.7	22.6	19.3	16.7

Source: Company, India Infoline Research

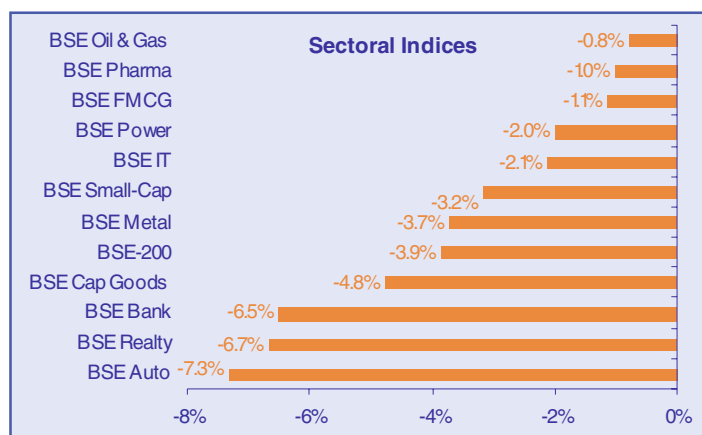
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Market review

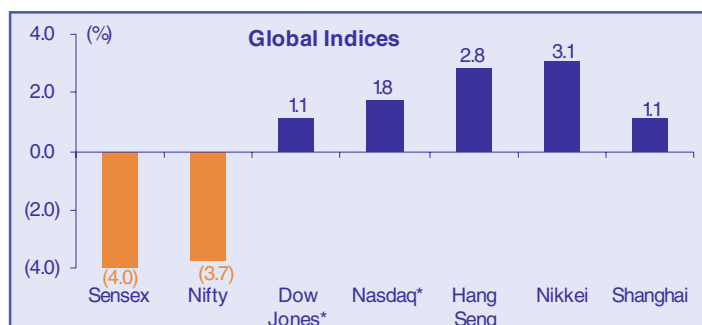
The start of the new year did not bring any cheers for the Indian markets. Fresh selling pressure set in after government data showed that food inflation rose to its highest level in a year, sparking fears of a rate hike by the RBI. Moreover, the deferment of the two EGoM on diesel and urea prices also had a sentimental impact. Finally, the BSE Sensex and NSE Nifty fell by 4% and 3.7% respectively.



Auto stocks corrected this week despite strong December sales figures on fears that rising commodity prices and hardening interest rates could impact the industry. Banking stocks were among the top losers on concerns of a rate hike by the RBI in the next quarterly policy later this month to contain rising inflation, which will impact the profitability of banks.



All economic reports out of the US this week were quite encouraging enabling the bulls on Wall Street to extend the December rally in the new year. Even the European markets held their own as there were no further bad news on the sovereign debt front. But, the commodity space witnessed some pressure after the dollar recovered on bright economic prospects for the US.



*As per previous close

FII & MF activity

Date	(Rs cr)	
	FII Net Investment	MF Net Investment
30-Dec	2,353	(166)
31-Dec	617	27
03-Jan	428	(90)
04-Jan	779	(293)
05-Jan	(92)	-
Total 2010	1,114	(383)

BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Tata Power Co	1,387	1.5	Jain Irrigation	223	6.5
Reliance Inds	1,065	0.6	Gail	524	3.8
-	-	-	Sun Pharma	492	3.6
-	-	-	Cairn India	340	3.0
-	-	-	Sun Tv	529	2.7

BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Tata Motors	1,190	(8.9)	Bajaj Auto	1,317	(14.9)
ICICI Bank	1,048	(8.4)	Yes Bank	271	(12.9)
Dlf Ltd	269	(7.9)	Indusind Bank	231	(12.5)
SBI	2,600	(7.5)	Chambal Fertiliz	79	(11.5)
ACC	1,000	(7.1)	Indian Bank	221	(10.6)

Bulk deals

Date	Institution	Script name	B/S	Qty (lacs)	Price
4-Jan	Goldman Sachs	Praj Industries	B	9.3	86.6
5-Jan	Reliance Trust	Bajaj Finance	B	2.0	697.5
6-Jan	Goldman Sachs	Monnet Ispat	B	3.0	565.0

Book closures and record dates

Company	Date	Purpose
Garware Offshore	12-Jan-2011	Interim Dividend
Shoppers Stop	12-Jan-2011	Stock Split
RR Fin	13-Jan-2011	Bonus 1:1

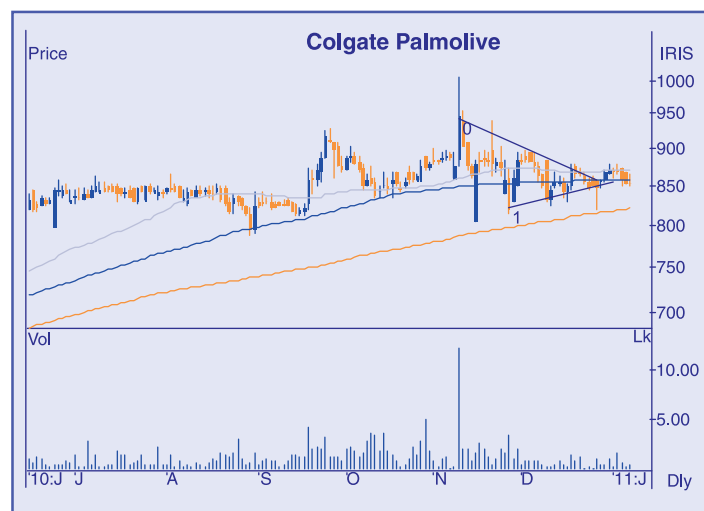
Insider Trades

Company	Name	B/S	Qty ('000)
NIIT Tech	Prabhat Goenka	S	2.0
JP Associates	Shailendra Gupta	S	8.0
Ambuja Cem	Sanjay Khajanchi	S	1.0
Shoppers Stop	B. S. Nagesh	S	4.323

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Technical ideas

Colgate Palmolive **BUY**
CMP Rs853

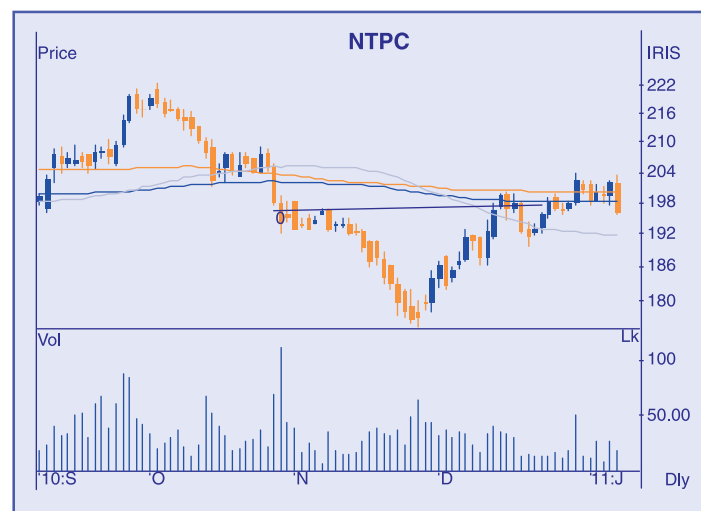


Colgate Palmolive on the daily chart has signaled breakout from the symmetrical triangle with expansion in the volumes. The breakout was accompanied with positive crossover in the RSI with prices crossing above the short term moving averages.

Our positive view is further validated after the stock pulled back to test solidity of support at Rs850 which becomes a decent entry point. As prices currently hovering in the middle of Bollinger band, immediate target can be placed at Rs910 which is upper Bollinger band.

The stochastic also is yet to enter any overbought position which suffice better risk reward ratio from the current levels. **We advise buying the stock in the range of Rs850-855 with stop loss of Rs835 for target of Rs910.**

NTPC **BUY**
CMP Rs196



NTPC remains resilient on short term charts and managed to close above the medium term resistance of 100-DMA in Thursday's trading session. Based on hourly chart, stock has signaled breakout from the 'flag' pattern above Rs200 and stock is likely to head towards Rs210 in the near term.

Adding to it RSI has given another positive crossover which affirms positive momentum in the short term. The long term charts has also given trend reversal on the monthly charts after formation of 'Bullish Engulfing pattern' and from here on we expect the positive trend is likely to continue. **We advise buying between Rs194-197 with stop loss of Rs190 for target of Rs210.**

Positive open interest build-up

Company	Price % chg	OI % chg	Vol % chg
Bank India	1.6	11.4	34.3
Union Bank	0.2	1.2	10.7
-	-	-	-
-	-	-	-
-	-	-	-

Negative open interest build-up

Company	Price % chg	OI % chg	Vol % chg
Ashok Leyland	(4.7)	9.2	(2.7)
GAIL	(0.6)	8.9	(3.0)
Bajaj Auto	(1.0)	2.7	(7.5)
Jindal Saw	(1.0)	7.2	(32.3)
L&T	(1.9)	7.0	(31.3)

Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Grasim	2,387	2,342	0.2	0.2
Praj Ind	83	82	23.4	20.9
Sesa Goa	332	329	7.9	7.3
Tata Power	1,387	1,355	0.3	0.2
Lupin	474	474	1.0	1.0

Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Aurobindo Ph	1,312	1,321	0.1	0.1
Mercator Lines	237	247	0.1	0.1
Biocon	400	417	0.8	0.9
HCC	45	47	13.2	15.0
Nalco	377	388	0.1	0.1

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Mutual fund round-up

India Infoline picks

Mutual Funds	Assets (Rs Cr)	NAV (Rs)	Absolute return (%) as on January 06, 2011							
			1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200 (G)	9,425	223.4	(0.3)	(0.7)	(2.5)	15.1	22.0	128.9	28.6	173.5
Reliance Equity Opportunities – (G)	2,694	38.0	1.3	1.3	(4.4)	14.1	26.3	155.6	16.1	157.7
HDFC Mid-Cap Opportunities (G)	1,184	16.4	1.5	(0.4)	(1.3)	14.6	30.6	145.9	21.4	--
HDFC Prudence Fund (G)	5,738	218.4	(0.1)	(0.7)	(2.0)	11.2	23.6	123.8	31.3	152.9
HDFC Tax Saver (G)	2,892	245.4	(0.8)	(1.2)	(4.0)	12.3	22.4	136.9	17.7	119.6

Fund this week: HDFC Tax Saver

Fund snapshot		Asset allocation (%)	
Fund Manager	Vinay Kularni	Equity	88.1
Latest NAV	Rs245.4	Debt	0.8
NAV 52 high/low	Rs261/188	Cash/call	11.1
Latest AUM (cr)	Rs2,892	Top 5 holdings (%)	
Type	Open-ended	ICICI Bank	5.5
Class	Equity - Diversified	Crompton Greaves	4.8
Options	Growth & dividend	Infosys Ltd	4.7
Min investment	Rs500	SBI	4.6
Benchmark	S&P CNX 500	Sun Pharma	4.3
No. of stocks	58	Top 3 sectors (%)	
No. of sectors	35	Pharma	11.6
Expense ratio	1.8%	Bank - Private	11.1
Exit load	Nil	Bank - Public	10.1

NFO update

Fund Name	Close	Type	Class
IDFC FMP -Yrly Sr-35 (G)	10-Jan	CE	Debt – FMP
ICICI Pru FMP Sr 53 - 1 Yr Plan E	12-Jan	CE	Debt – FMP
Kotak QIP Series 10	13-Jan	CE	Debt – FMP

Dividend update

Mutual Fund	Dividend %	Record date	Class
IDFC Asset Allocation FOF	0.2	10-Jan	Hybrid
Tata Equity P/E Fund	17.5	10-Jan	Equity
-	-	-	-

Commodity, debt and currency graphs



* As per previous close

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