

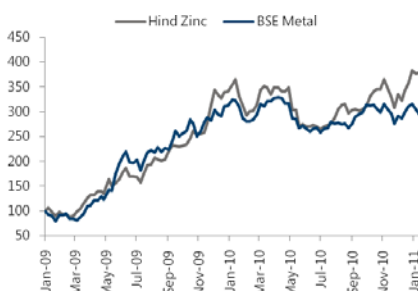
Result Update - Q3FY11

BUY

| | |
|------------------|------------|
| Reco | Maintained |
| CMP | 1339 |
| Target Price | 1475 |
| Upside Potential | 10.1% |

Price Performance

| | |
|--------------------|----------|
| 52 wk Hi/Lo | 1443/896 |
| All time Hi/Lo | 1443/4 |
| 6 mnth Average Vol | 141824 |
| Stock Beta | 1.19 |



Valuation

| | FY10 | FY11P | FY12P |
|----------|-------|-------|-------|
| P/E (x) | 14.00 | 12.87 | 11.63 |
| P/BV (x) | 3.12 | 2.55 | 2.12 |
| RONW (%) | 22.30 | 19.82 | 18.26 |
| ROCE (%) | 27.8 | 24.4 | 18.3 |

Peer Valuation (FY 12)

| | Ster | Hindal |
|-----------|------|--------|
| PE | 8.9 | 11.7 |
| EV/EBIDTA | 5.6 | 7.0 |

Equity Data

| | |
|-----------------------|-----|
| Market Cap. (₹ bn) | 566 |
| Face value (₹) | 10 |
| No of shares o/s (mn) | 423 |

| | Dec09 | Dec10 | %Δ |
|-----------|-------|-------|---------|
| Promoters | 64.92 | 64.92 | 0.00 |
| DFI's | 31.11 | 31.57 | 1.48 |
| FII's | 2.04 | 1.70 | - 16.67 |
| Public | 1.93 | 1.81 | - 6.22 |

Tanuj Rastogi

tanuj.rastogi@msflibg.in

(+ 91 22 2269 0474/75)

January 20, 2011

Hindustan Zinc Ltd.

Good show continues

HZL's Top line and bottom line is above our expectation due to higher Zinc and lead concentrate sales.

Higher Volume & Realization led excellent performance

In Q3FY11, HZL's net sales grew by 17.4% y-o-y & 20.3% q-o-q to ₹ 26015 mln due to higher volume (+14.2% y-o-y & .49% q-o-q) and realization (+3.4% y-o-y & 14.2% q-o-q). Moreover net sales for the quarter has augmented by ₹ 2343 mln due to excess concentrate sale. HZL's EBITDA grew by 8.7% y-o-y & 34% q-o-q to ₹ 15072 mln due to higher volume, realization and concentrate sales. However margin plunged by 810 bps y-o-y to 58% due to higher coal & coke cost, striping cost at mines and higher unit CoP from new smelter. Unit CoP (ex-royalty) for the quarter has increased by 40% y-o-y & 1.5% q-o-q to \$817/ton.

Good operating performance & higher other income led to superior PAT

Excellent operating performance and higher other income (+57% y-o-y and +12.5% q-o-q) enabled the company to report 12.3% y-o-y and 36% q-o-q jump in net profit to ₹ 12896 mln. The company is currently having cash pile of ₹ 130.92 bln which is further expected to increase in coming quarters. Thus we believe that the company would continue to report healthy growth in other income.

Current capex near completion; new one announced

HZL's current expansion plans are almost near completion. Sindesar Khurd mine and second unit of 160 MW power plants has commenced trial run during the quarter and 100000 tons lead smelter is expected to commission by Q4FY11. The company has decided to set up 150 MW wind power plant. The project is expected to complete in two phases. 50 MW will be commenced by Q4FY11 and 100 MW will be completed by Q2FY12.

Valuation attractive; PT upgraded to ₹ 1475

At CMP of ₹ 1339, the company is trading at P/E of 12.8x and 11.6x of its FY11E and FY12E earnings, while on EV/EBITDA basis; it is trading at 7.8x and 6.1x for FY11E and FY12E respectively. In past two months Zinc prices have increased by almost 30% as the fear of sovereign debt crisis and Chinese tightening has faded. We believe that HZL is the best vehicle to ride this demand revival in commodities as the company is all set to reap the benefit with its new capacities. Though all time high inventories could put short term pressure on prices, gradually exhausting mine supply will provide support to the prices. Thus we maintain our Buy recommendation with upgraded price target of ₹ 1475.

Summary Financials

| ₹ in Mln | 2009 | 2010 | 2011P | 2012P |
|--------------------|---------|---------|---------|---------|
| Net Sales | 56,803 | 80,170 | 94,306 | 109,879 |
| OPBDIT | 27,342 | 46,701 | 51,845 | 59,082 |
| Net Profit | 27,276 | 40,414 | 43,951 | 48,655 |
| EPS | 64.6 | 95.6 | 104.0 | 115.2 |
| Networth | 143,576 | 181,240 | 221,730 | 266,431 |
| Debt | 87 | 605 | 605 | 605 |
| Fixed Assets | 52,133 | 72,771 | 72,117 | 69,281 |
| Net Current Assets | 27,830 | 6,695 | 47,838 | 95,375 |

Q3FY11 Result Highlight

| Description (INR Mn) | Q3FY11 | Q3FY10 | Y-o-Y | 9mFY11 | 9mFY10 | Y-o-Y |
|---|--------------|--------------|--------------|--------------|--------------|---------------|
| Net Sales | 26015 | 22167 | 17.4% | 67151 | 55185 | 21.68% |
| Other Operating Income | 287 | 324 | -11.5% | 869 | 755 | 15.01% |
| Total Income | 26302 | 22491 | 16.9% | 68020 | 55940 | 21.59% |
| Expenditure | | | | | | |
| (Accretion) /Decretion to stock | -468 | -184 | 154.9% | -1558 | 223 | -798.16% |
| Mining & Manufacturing Exp's | 7458 | 4741 | 57.3% | 21388 | 13726 | 55.82% |
| Mining Royalty | 2195 | 1917 | 14.5% | 5523 | 4222 | 30.81% |
| Remuneration & Other benefits to Employee | 1130 | 1379 | -18.1% | 3767 | 3222 | 16.92% |
| Administrative, Selling & Other Exp | 914 | 777 | 17.6% | 2357 | 2109 | 11.75% |
| Total Expenditure | 11229 | 8630 | 30.1% | 31477 | 23502 | 33.93% |
| EBITDA | 15073 | 13861 | 8.7% | 36543 | 32439 | 12.65% |
| EBITDA Margin (%) | 57.9% | 62.5% | -4.6 | 54.4% | 58.8% | -7.42% |
| Depreciation | 1195 | 817 | 46.3% | 3477 | 2336 | 48.82% |
| Other Income | 2071 | 1319 | 57.0% | 5496 | 4658 | 17.99% |
| Interest (net) | 1 | 77 | -98.6% | 62 | 162 | -62.13% |
| Exceptional items | 0 | 0 | 0 | 212 | 0 | 0 |
| PBT | 15947 | 14286 | 11.6% | 38290 | 34598 | 10.67% |
| Total Tax | 3051 | 2799 | 9.0% | 6997 | 6574 | 6.44% |
| Net Profit (+) / Loss (-) | 12896 | 11487 | 12.3% | 31293 | 28024 | 11.66% |
| EPS (INR) | 30.5 | 27.2 | 12.3% | 74.0 | 66.3 | 11.66% |

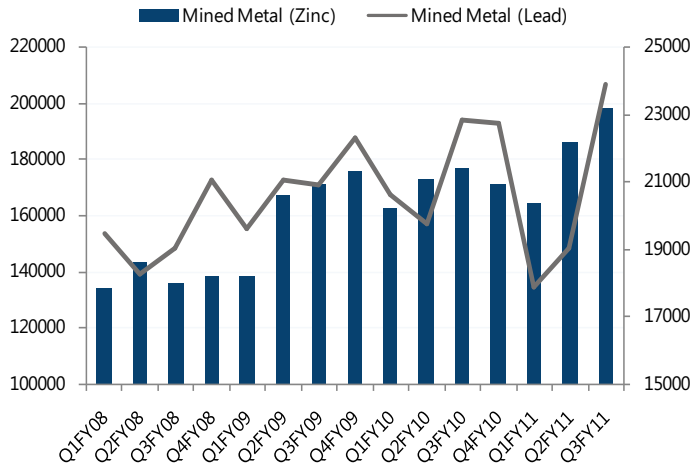
Source - Company

Highlights

- ✓ New 210000 ton of Zinc smelter has fully stabilized during the quarter and has contributed 46500 tons in total production for the quarter, which translates into 88.5% utilization on annualized basis.
- ✓ Construction activity at the 100000 lead smelter at Rajpura Dariba is progressing as planned, and is on schedule for completion by Q4FY11. Of the 160MW captive power plant, one unit of 80 MW CPP was synchronized in Q2FY11 and the second unit is has started trail runs during Q3FY11.
- ✓ Primary mine development activity at Sindesar Khurd mine project is on schedule, with production expected to commence from Q4FY11.
- ✓ Part of the Anglo Zinc Assets (Skorpion Mine) has been acquired by a 100% Sterlite subsidiary. This was intended to be acquired by HZL but government approval was not received in time for the contract completion. The rest of the assets (Lisheen and Black Mountain mines) are expected to be acquired in another 3-6 months by HZL.
- ✓ During the quarter, HZL decided to add 150 MW capacity to its existing wind power generation capacity of 123.2 MW. The Project will be completed in two phases. The first phase of 50MW will be completed by the end of Q4FY11. The second phase of 100MW will be completed by the end of Q2FY12.
- ✓ The company has decided to issue bonus share in the ratio of 1:1 and split the share from ₹ 10 to ₹ 2.

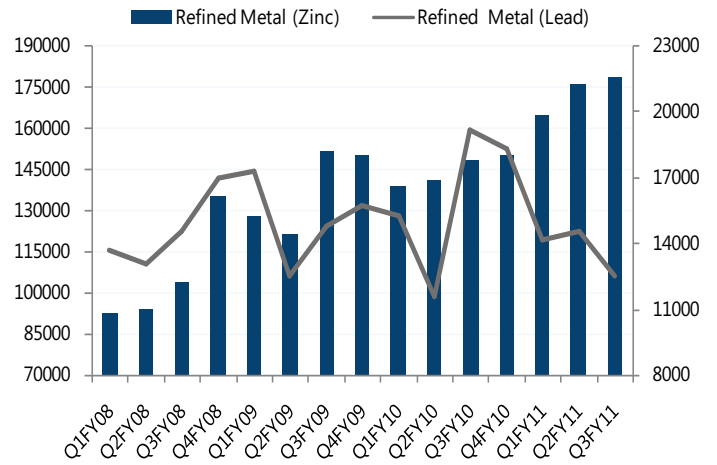
Mine Metal Production

HZL reported highest ever mine metal production as capacity of Rampura Agucha Mine has been ramped up. Mine metal production grew by 11.3% annually and 8.5% sequentially.



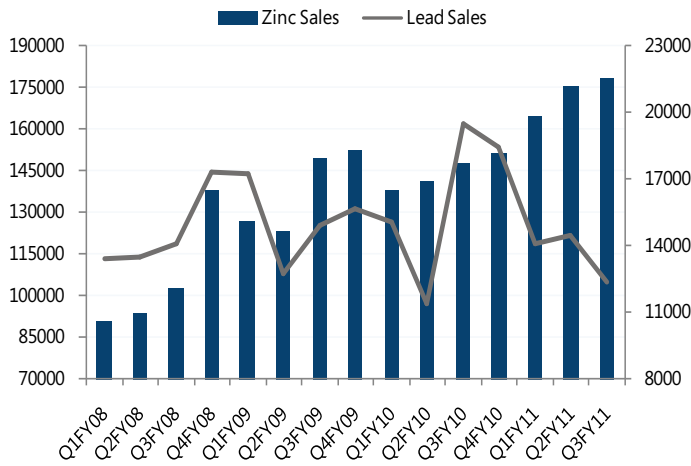
Refined Metal Production

HZL reported highest ever refined metal production during the quarter as new 210000 ton of Zinc Smelter started contribution. However lead production was affected due to shut down in the smelters.



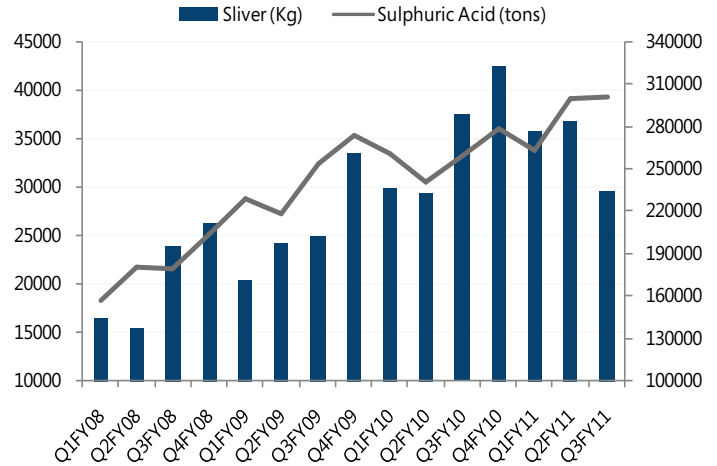
Sales Volume (Zinc & Lead)

Sales volume of refined zinc metal grew by 20.9% y-o-y & 1.7% q-o-q. However Lead sales volume de-grew by 37% y-o-y and 14.7% sequential due to shut down in smelter. Refined Zinc and lead volume is expected to increase in coming quarter as new capacities stabilized.



Sales Volume (Silver & Sulphuric Acid)

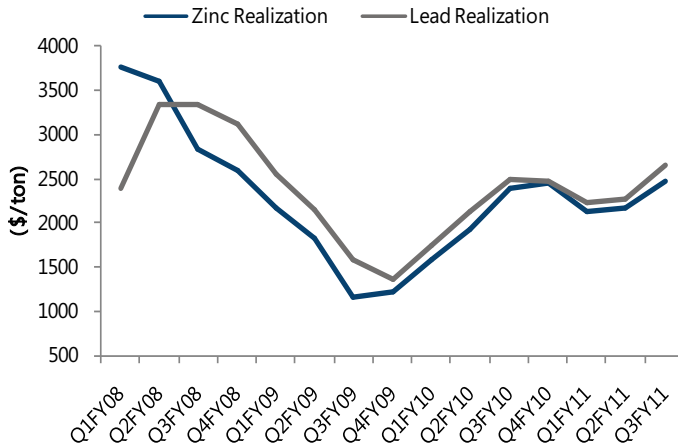
Sulphuric Acid volume grew by 15.7% y-o-y and remained flat sequentially. However silver volume de-grew by 21.4% y-o-y and 20% sequentially due to lower silver recovery.



Source - Company, MSFL Research

Zinc and Lead Realization

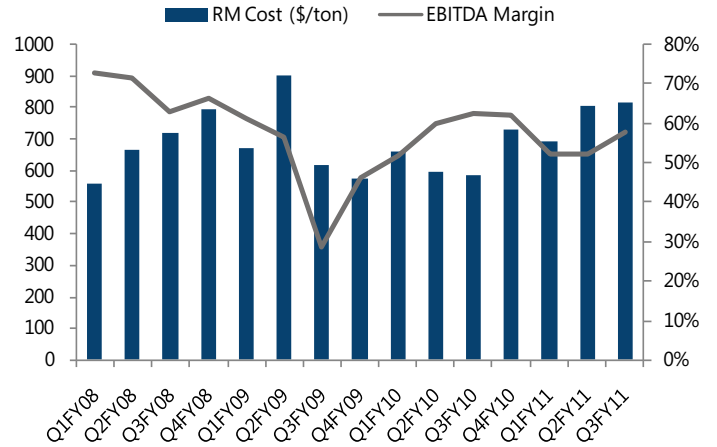
Zinc and lead realizations have continued their upward trend on y-o-y and as well as sequential basis. We believe that Realization is set to increase in coming quarters as LME prices are hovering almost 10% higher than Q3FY11 average.



Source - Company, MSFL Research

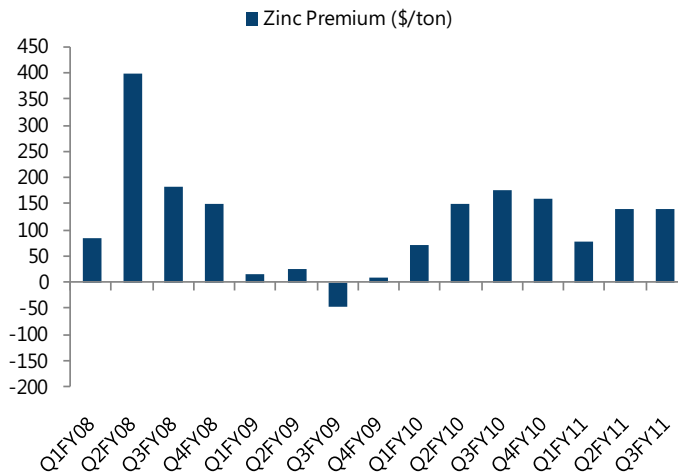
EBITDA Margin & RM Cost/ton

EBITDA Margin for the quarter plunged by 460 bps on y-o-y basis to 57.9% due to higher coal and coke cost which offset higher realization. However on q-o-q basis EBITDA margin increased by 590 bps due to higher realization and concentrate sale.



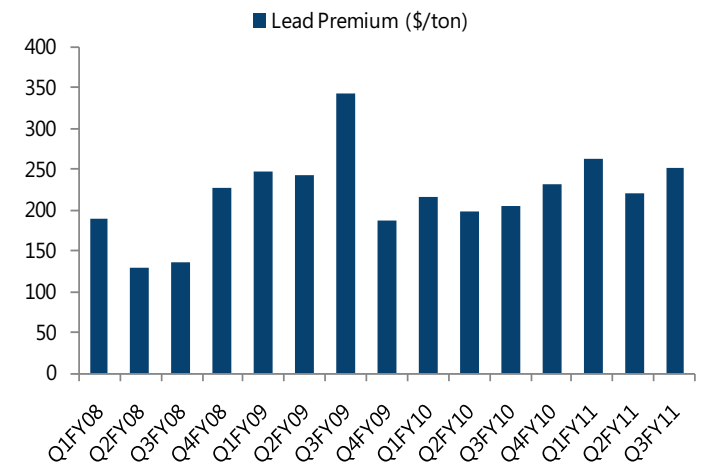
ZINC Premium (\$/ton)

Zinc premium remained flat sequentially to \$140/ton as zinc prices were very volatile during the quarter. Henceforth we expect company to maintain premium in the range of \$80-130/ton.



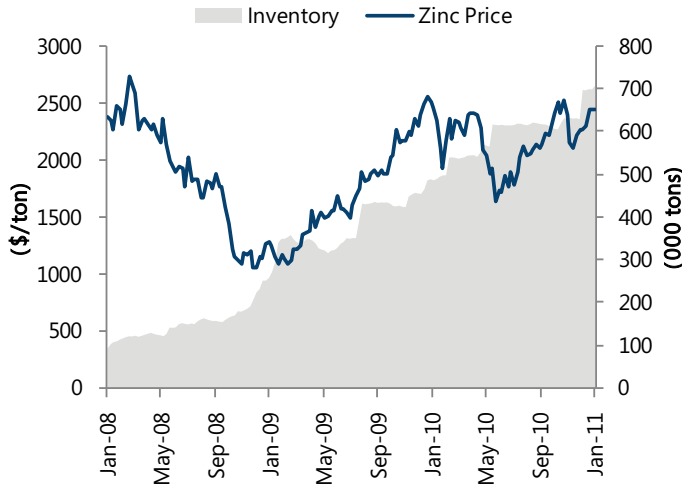
Lead Premium (\$/ton)

Lead premium has increased by \$31/ton to \$253/ton and it remains volatile since past few quarters. In view of growing demand in India, we expect company to maintain this premium going ahead.



Zinc Price and Inventory

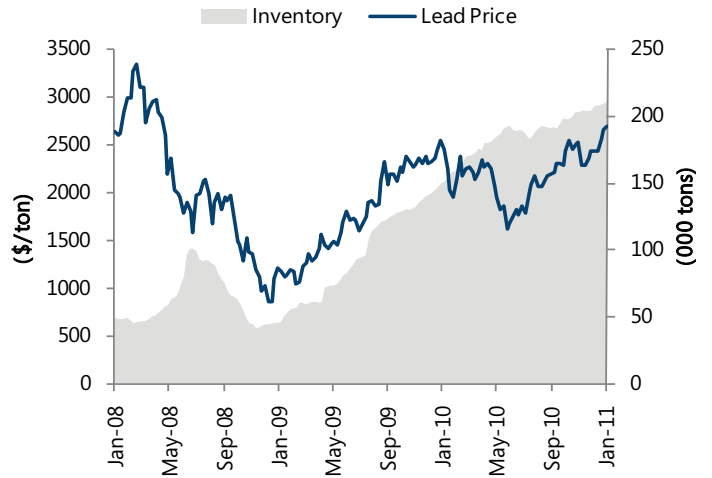
After correcting very sharply in the beginning of the quarter, Zinc prices have increased by almost 30% in past two months. The rise is majorly supported by improving macro economic conditions in the western world. Inventory is continues to increase, which could put pressure on prices.



Source - Bloomberg

Lead Price and Inventory

Lead prices and inventory has almost followed the similar (like Zinc) trend and increased almost by 30% during the quarter. We expect that prices will remain stable at these levels as high inventory will put pressure on prices.



Financial Summary

Profit & Loss

| Particulars (₹ in mln) | 2008 | 2009 | 2010 | 2011P | 2012P |
|------------------------|---------------|---------------|---------------|---------------|----------------|
| Net Sales | 78,778 | 56,803 | 80,170 | 94,306 | 109,879 |
| Total Expenditure | 24,994 | 29,461 | 33,469 | 43,529 | 51,797 |
| EBIDTA | 53,784 | 27,342 | 46,701 | 51,845 | 59,082 |
| EBIDTA Margin (%) | 68.3% | 48.1% | 58.3% | 55.0% | 53.8% |
| Depreciation | 2,205 | 2,853 | 3,343 | 4,654 | 4,836 |
| EBIT | 51,579 | 24,489 | 43,358 | 47,192 | 54,246 |
| Interest cost | 242 | 219 | 439 | 82 | 100 |
| Operating Profit | 51,337 | 24,270 | 42,919 | 47,110 | 54,146 |
| Other Income | 8,516 | 9,312 | 7,222 | 7,214 | 6,673 |
| Extraordinary Item | 0.0 | 0.0 | 0.0 | 211.6 | 0.0 |
| PBT | 59,853 | 33,582 | 50,141 | 54,113 | 60,819 |
| Tax | 15,893 | 6,306 | 9,727 | 10,162 | 12,164 |
| PAT (After MI) | 43,961 | 27,276 | 40,414 | 43,951 | 48,655 |
| PAT Margin (%) | 55.8% | 48.0% | 50.4% | 46.6% | 44.3% |
| EPS | 104.0 | 64.6 | 95.6 | 104.0 | 115.2 |
| Sales Growth (%) | -8.0% | -27.9% | 41.1% | 17.6% | 16.5% |
| EBITDA Growth (%) | 16.1% | -49.2% | 70.8% | 11.0% | 14.0% |
| PAT Growth (%) | -1.0% | -38.0% | 48.2% | 8.8% | 10.7% |

Balance Sheet

| Particulars (₹ in mln) | 2008 | 2009 | 2010 | 2011P | 2012P |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Sources of Funds | | | | | |
| Share Capital | 4,225 | 4,225 | 4,225 | 4,225 | 4,225 |
| Reserves & Surplus | 114,257 | 139,351 | 177,014 | 217,505 | 262,205 |
| Networth | 118,482 | 143,576 | 181,240 | 221,730 | 266,431 |
| Secured Loans | 0 | 83 | 0 | 0 | 0 |
| Unsecured Loans | 4 | 4 | 605 | 605 | 605 |
| Total Loans | 4 | 87 | 605 | 605 | 605 |
| Deferred Tax Liability | 4,597 | 5,589 | 7,112 | 7,112 | 7,112 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 123,083 | 149,251 | 188,957 | 229,447 | 274,148 |
| Application of Funds | | | | | |
| Net Fixed Assets | 41,626 | 52,133 | 72,771 | 72,117 | 69,281 |
| Investment | 63,325 | 69,289 | 109,492 | 109,492 | 109,492 |
| Goodwill | 0 | 0 | 0 | 0 | 0 |
| Current Assets | 27,116 | 37,839 | 19,953 | 65,327 | 115,270 |
| Current Liabilities | 8,984 | 10,010 | 13,258 | 17,489 | 19,895 |
| Net Current Assets | 18,132 | 27,830 | 6,695 | 47,838 | 95,375 |
| Misc Expense not w/o | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 123,083 | 149,251 | 188,957 | 229,448 | 274,148 |

Cash Flow

| Particulars (₹ in mln) | 2008 | 2009 | 2010 | 2011P | 2012P |
|----------------------------------|----------------|----------------|----------------|---------------|---------------|
| Internal accruals | 54,408 | 28,667 | 47,852 | 58,847 | 65,755 |
| (Inc)/Dec in Net Current Assets | 2,960 | 3,667 | 767 | 1,908 | 915 |
| Cash flow from Operations | 42,080 | 27,127 | 40,773 | 50,594 | 54,507 |
| Inc/(Dec) in Debt | 0 | 83 | 433 | 0 | 0 |
| Inc/(Dec) in Equity | 0 | 0 | 0 | 0 | 0 |
| Cash flow from Financing | -2,713 | -1,372 | -1,874 | -3,542 | -4,055 |
| Fixed Asset formation | -15,151 | -13,793 | -22,492 | -4,000 | -2,000 |
| Inc/(Dec) in Investment | -14,067 | -4,431 | -39,218 | 0 | 0 |
| Cash flow from Investment | -26,936 | -34,191 | -38,815 | -4,000 | -2,000 |
| Net Change in Cash | 12,431 | -8,436 | 84 | 43,052 | 48,452 |

Ratios

| Valuation Ratio | 2008 | 2009 | 2010 | 2011P | 2012P |
|--------------------|-------|-------|-------|-------|-------|
| P/E | 12.9 | 20.7 | 14.0 | 12.9 | 11.6 |
| P/BV | 4.8 | 3.9 | 3.1 | 2.6 | 2.1 |
| EV/EBIDTA | 9.1 | 17.2 | 9.6 | 7.8 | 6.0 |
| EV/Sales | 6.2 | 8.3 | 5.6 | 4.3 | 3.2 |
| Dividend Yield (%) | 0.37% | 0.30% | 0.45% | 0.52% | 0.60% |
| EPS | 104.0 | 64.6 | 95.6 | 104.0 | 115.2 |
| DPS | 5.0 | 4.0 | 6.0 | 7.0 | 8.0 |
| Book Value | 280 | 340 | 429 | 525 | 631 |
| Adj. ROE | 37.1% | 19.0% | 22.3% | 19.8% | 18.3% |
| Adj. ROCE | 50.7% | 23.5% | 27.8% | 24.4% | 18.3% |

Solvency Ratio (x)

| | | | | | |
|-----------------|-------|-------|-------|-------|-------|
| Debt/Equity | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Debt/EBIDTA | -0.25 | -0.99 | -0.19 | -1.00 | -1.70 |

Turnover Ratio (x)

| | | | | | |
|----------------------|-------|-------|-------|-------|-------|
| Asset Turnover | 1.8 | 1.0 | 1.1 | 1.1 | 1.1 |
| Fixed Asset Turnover | 2.2 | 1.2 | 1.3 | 1.3 | 1.6 |
| Current Ratio | 3.02 | 3.78 | 1.50 | 3.74 | 5.79 |
| Inventory (days) | 75.7 | 67.6 | 49.3 | 48.7 | 48.0 |
| Debtors (days) | 20.6 | 10.6 | 6.9 | 9.1 | 8.7 |
| Creditors (days) | 151.8 | 129.1 | 139.9 | 146.0 | 146.0 |

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Key ratings:

| Rating | Expected Return |
|------------|-----------------|
| Buy | > 15% |
| Accumulate | 5 to 15% |
| Hold | -5 to 5% |
| Sell | < -5% |
| Not Rated | - |

Marwadi Shares & Finance Limited

Institutional Business Group, MSFL

@p-sec, 306, Gresham Assurance House
132, Mint Road, Fort, Mumbai - 400 001
Tel : + 91 22 2269 0474 / 75 Fax : +91 22 2269 0478

Registered Office

Marwadi Financial Plaza, Nava Mava Main Road,
Off 150 FT. Ring Road, Rajkot - 360 005
Tel : + 91 281 2481313 / 3011000