

Investment Idea

July 06, 2012

Hindustan Zinc

BUY
CMP ₹124

Depreciating rupee to cushion the decline in zinc prices

Zinc prices have remained subdued over the last two years on worries about the strength of the global economy and thus potential industrial demand, particularly as the European sovereign-debt crisis continues. Structural issues like over-capacity and high inventory levels continue to remain an overhang on zinc prices. We expect zinc would continue to underperform in 2012. Production is expected to grow strongly this year and as a result, the market will likely remain in surplus. The impact of lower commodity prices on profitability of HZL would be cushioned by the sharp depreciation in the rupee against the dollar. In addition, the strength in precious metal prices would further add to the company's profitability.

Lead and silver volumes to surge over FY12-14E

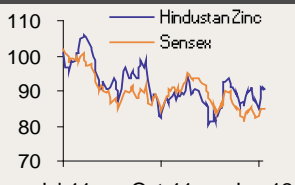
HZL over the last six months has commissioned the 0.1mtpa lead smelter in Dariba, the 350tpa silver refinery in Pant Nagar and has ramped-up of the SK mine from 1.5mtpa to 2.0mtpa. The company is using its zinc refinery at Chanderiya and Dariba for providing feed to the silver refinery. The new lead smelter is currently operating at 70% capacity utilisation and silver refinery is expected to ramp up its production in FY13. We expect lead volumes to jump 50% and silver production volumes to surge from 206 tons to 433 tons over FY12-14 on the back of higher production from the new capacities.

Valuations attractive; Silver to drive earnings

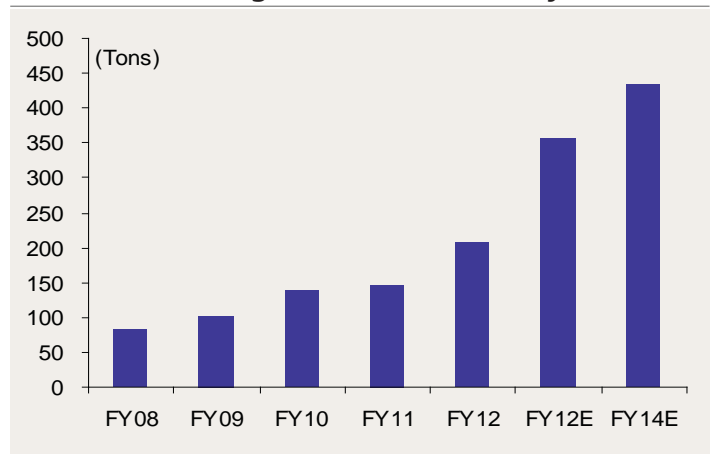
HZL has become the world's largest integrated zinc-lead producer. The company is fully integrated with captive mines and power plants, which places it in the lower quartile of the global cost curve. We believe ramp up in production from the lead smelter and the commissioning of the silver refinery would boost the company's earnings over the next two years. We expect zinc and lead prices to stay subdued over the next two years as the market remains in an oversupply mode. However, the strength in the silver prices would boost margins for the company. HZL has been trading at a one year forward EV/EBITDA in the range of 3-8x for the past five years (Average one year forward EV/EBITDA of 4.6x). We have taken a marginally lower multiple of 4.5x for our valuation, which is in line with the current weakness in the zinc cycle and sluggishness in demand. We believe the current valuations are attractive and maintain our BUY rating on the stock.

| Sector: Metals | | | | Shareholding pattern | |
|-------------------|-----------|-------------------|--|----------------------|--|
| BSE code: | 500188 | March' 12 | | (%) | |
| NSE code: | HINDZINC | Promoters | | 64.9 | |
| 52 Week h/l (₹): | 150 / 107 | Institutions | | 3.1 | |
| Market cap (₹cr): | 51,317 | Non promoter corp | | 1.3 | |
| FV (₹): | 2 | Public & others | | 30.7 | |

| Performance rel. to sensex | | | | Share price chart | |
|----------------------------|-------|-------|--------|-------------------|--|
| (%) | 1m | 3m | 1yr | 110 | |
| HZL | (3.0) | (8.0) | (2.6) | 100 | |
| Sterlite | 1.7 | (8.1) | (31.5) | 90 | |
| Hindalco | (5.3) | (8.5) | (27.0) | 80 | |
| NALCO | (3.1) | 9.3 | (19.2) | 70 | |



Silver sales to surge over the next two years



Source: Company, India Infoline Research

Financial highlights

| Y/e 31 Mar (₹ m) | FY11 | FY12 | FY13E | FY14E |
|---------------------|---------|---------|---------|---------|
| Revenues | 100,391 | 114,053 | 129,613 | 139,007 |
| yoy growth (%) | 25.2 | 13.6 | 13.6 | 7.2 |
| Operating profit | 56,226 | 60,694 | 72,523 | 74,606 |
| OPM (%) | 56.0 | 53.2 | 56.0 | 53.7 |
| Pre-exceptional PAT | 49,366 | 55,691 | 65,178 | 67,785 |
| Reported PAT | 49,154 | 55,260 | 65,178 | 67,785 |
| yoy growth (%) | 21.6 | 12.4 | 17.9 | 4.0 |
| EPS (₹) | 11.7 | 13.2 | 15.4 | 16.0 |
| P/E (x) | 10.1 | 9.0 | 7.6 | 7.4 |
| P/BV (x) | 2.2 | 1.9 | 1.6 | 1.3 |
| EV/EBITDA (x) | 6.2 | 5.2 | 3.5 | 2.6 |
| ROE (%) | 24.3 | 22.5 | 22.2 | 19.7 |
| ROCE (%) | 28.4 | 27.2 | 27.2 | 24.3 |

Source: Company, India Infoline Research

India Infoline Weekly Wrap

Market Outlook

It has been a highly boring week for the Indian markets, with the frontline indices stuck in a narrow trading band. Investors turned cautious in the run up to the latest quarterly earnings and other key events like the month-end RBI policy meeting. Weak monsoon, fragile rupee and widening twin deficits also dampened the enthusiasm even as global data reinforced fears of deeper economic slowdown.

Even the fresh round of monetary easing by central banks in China, Europe and UK failed to perk up the mood. Investors were awaiting the latest monthly jobs data out of the US to gauge the strength of the world's largest economy. Next week, markets will focus on a whole host of Chinese economic statistics, including Q2 GDP report.

Next week will be important for the Indian markets as well. The Government will come out with the latest IIP data on July 12. Also, Infosys and TCS both will announce their Q1 FY13 results on the same day (July 12). HDFC siblings and IndusInd Bank will also declare their Q1 earnings next week.

Technical View

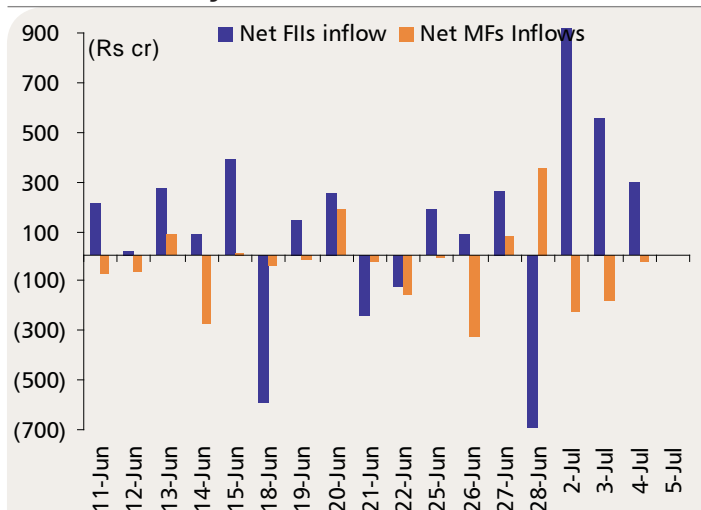
Markets extended gains for the fifth trading session week and managed to cement its position comfortably above 5300 levels. The trading range has been shifted higher to 5280-5400 with 5400 turning as major trend reversal points on the long term charts.

A star like pattern after sharp rally indicates deceleration of momentum and further consolidation is not ruled out in coming days. The daily RSI has been flirting with resistance band of 70 which also indicates overbought position.

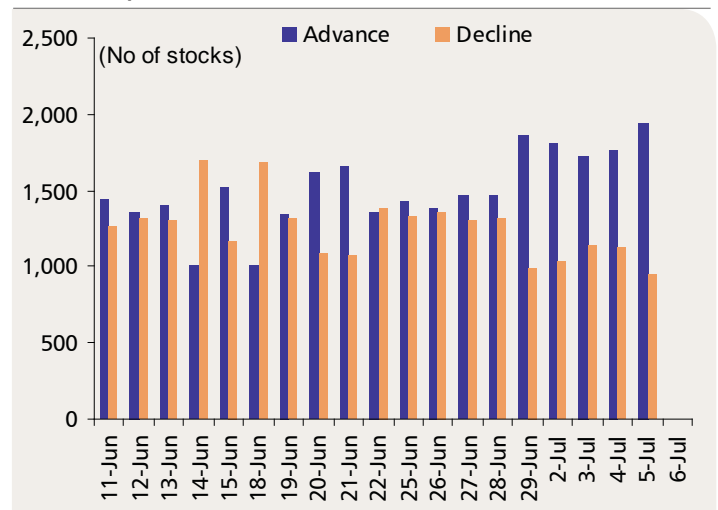
F&O View

FII remained net buyers for the week on both Cash as well as Index Future segment. The VWAP for nifty is at around 5300 and Bank Nifty at around 10450. Nifty breaching 5200 would spoil all this upside momentum as highest Put writing is at 5200. Call writing at 5300 and 5400 and some put writing at 5300 is keeping Nifty in the vicinity of 5300, though we feel Nifty might be in 5200-5400 range for major part of this contract.

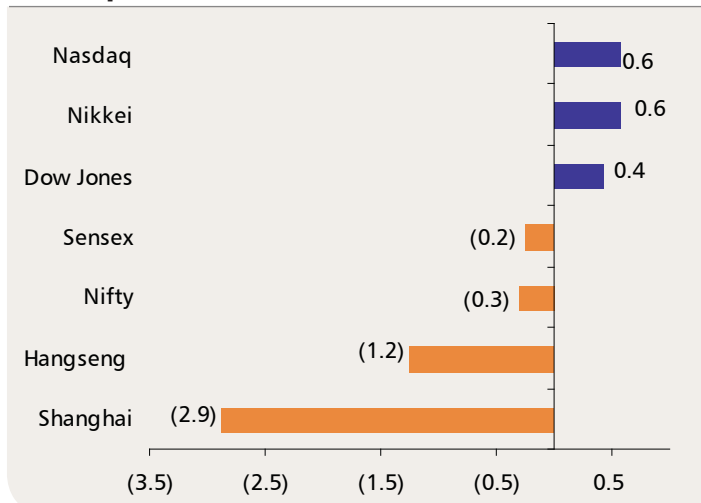
FII/MFs activity



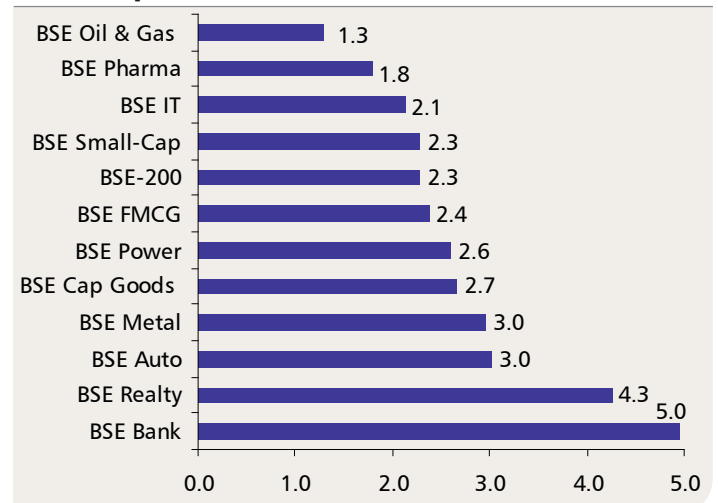
Advance/Decline



Global performance



Sectoral performance



India Infoline Weekly Wrap

Technical Check

Nifty 50 & CNX 500 top 10 gainers

| NSE Nifty | | | CNX 500 | | |
|---------------|---------|-------|-----------------|---------|-------|
| Company | CMP (₹) | % Chg | Company | CMP (₹) | % Chg |
| JP Associate | 77 | 11.3 | Rei Agro | 12 | 39.5 |
| DLF | 211 | 10.0 | Sterling Bio | 8 | 31.0 |
| ICICI Bank | 935 | 9.7 | Electrosteel | 21 | 22.7 |
| RCOM | 69 | 9.4 | FSL | 10 | 22.4 |
| Reliance Cap | 375 | 9.1 | Gtl Infra | 9 | 19.7 |
| Maruti Suzuki | 1,216 | 8.4 | MLL | 22 | 19.7 |
| Sterlite Ind | 108 | 7.8 | Sakthi Sugars | 31 | 19.5 |
| ACC | 1,296 | 7.6 | Orissa Minerals | 33,914 | 19.5 |
| BHEL | 236 | 7.2 | Bannari Amman | 720 | 19.4 |
| PNB | 841 | 7.0 | Anant Raj Indus | 56 | 19.1 |

Nifty 50 & CNX 500 top 10 Losers

| NSE Nifty | | | CNX 500 | | |
|-------------|---------|-------|-----------------|---------|--------|
| Company | CMP (₹) | % Chg | Company | CMP (₹) | % Chg |
| Cairn India | 315 | (3.1) | Info Edge | 333 | (11.3) |
| Wipro | 392 | (1.8) | Kemrock Ind | 462 | (6.6) |
| HUL | 446 | (1.4) | DCHL | 30 | (6.5) |
| Bajaj Auto | 1,539 | (1.3) | Amtek India | 98 | (5.8) |
| Infy | 2,445 | (1.0) | Hexaware Tech | 121 | (5.8) |
| - | - | - | Sobha | 333 | (5.3) |
| - | - | - | Wockhardt | 886 | (4.3) |
| - | - | - | Sadbhav Eng | 141 | (3.7) |
| - | - | - | Greaves Cotton | 68 | (3.6) |
| - | - | - | Gujarat Amb Exp | 20 | (2.9) |

Technically strong

| Company | CMP (₹) | 10 days Moving Average (₹) | Total Traded Qty (lacs) | 10 days Average Traded Qty (lacs) |
|-----------------|---------|----------------------------|-------------------------|-----------------------------------|
| JP Power | 36 | 35 | 2.7 | 2.5 |
| Financial Tech | 747 | 738 | 1.2 | 0.9 |
| Pipavav Defence | 86 | 84 | 16.9 | 10.0 |
| Tata Power | 105 | 94 | 0.0 | 0.0 |
| BPCL | 764 | 752 | 0.7 | 0.4 |

Technically weak

| Company | CMP (₹) | 10 days Moving Average (₹) | Total Traded Qty (lacs) | 10 days Average Traded Qty (lacs) |
|--------------|---------|----------------------------|-------------------------|-----------------------------------|
| Wipro | 392 | 399 | 2.5 | 1.3 |
| Nestle India | 4,436 | 4,507 | 0.2 | 0.1 |
| Jet Airways | 385 | 390 | 4.5 | 3.8 |
| Bajaj Auto | 1,540 | 1,560 | 0.4 | 0.3 |
| ONGC | 279 | 281 | 2.8 | 2.0 |

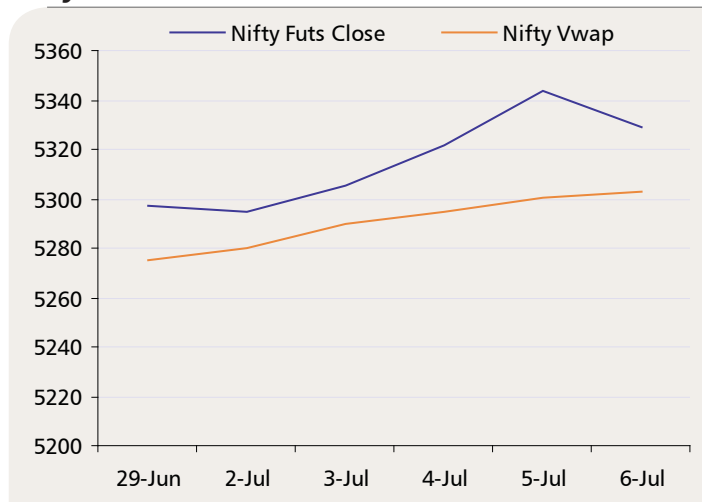
Bulk deals

| Date | Institution | Script name | B/S | Qty (lacs) | Price |
|-------|------------------|------------------|-----|------------|-------|
| 2-Jul | HDFC MF | OnMobile Global | B | 7.0 | 29.6 |
| 2-Jul | Kotak Mah. Prime | OnMobile Global | S | 28.8 | 30.2 |
| 4-Jul | Swiss Finance | Jindal SouthWest | S | 2.1 | 554.2 |
| 4-Jul | Merrill Lynch | OnMobile Global | B | 7.6 | 33.5 |

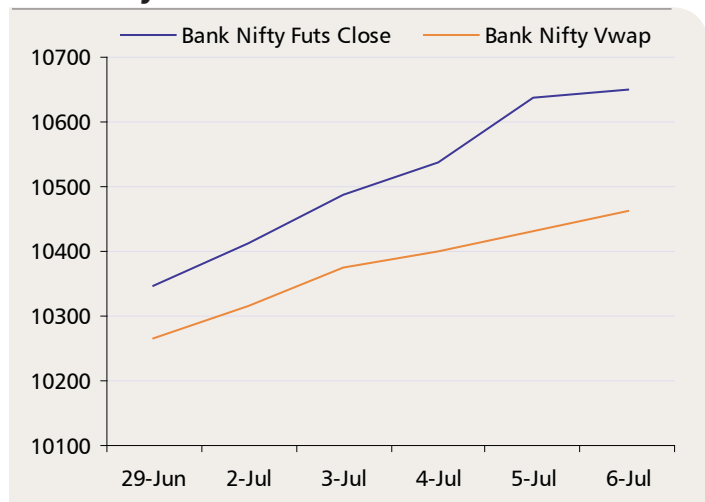
Book closure and record date

| Company | Date | Purpose |
|-----------------------|-------------|------------------|
| Gati | 10 Jul 2012 | Special Dividend |
| Kirloskar Oil Engines | 10 Jul 2012 | Final Dividend |
| CESC | 11 Jul 2012 | Dividend |
| Infotech Enter | 11 Jul 2012 | Final Dividend |
| Bharat Fert | 12 Jul 2012 | Dividend |
| Finolex Inds | 12 Jul 2012 | Dividend |

Nifty Future VWAP



Bank Nifty Future VWAP



India Infoline Weekly Wrap

Commodity Corner

Base metals

LME base metals surprisingly pared gains at the end of this week, as markets reacted negatively to the interest rate cuts announced in China and Europe. China has cut interest rates for the second time in two months. Subdued response to the recent interest rate move reveals that market participants remain uninspired by rate cuts especially in the West, where the prevalent interest rates are practically close to the floor. In China, although interest rates have much further room to fall, market participants have realized that Chinese economic activity will not be driven by interest rates move, as more significance is accentuated on the recessionary conditions in Europe. Poor flow of macroeconomic numbers in China also weighed on the sentiment, with Chinese manufacturing activity deteriorating at a faster pace in June than a month earlier.

Base metals have moved sharply higher during the end of June, aided by external factors rather than intrinsic fundamentals. Looking forward for this month, we believe that the complex will be under moderate pressure, as Chinese economic activity seems to be struggling and monetary easing policies cannot abate the slowdown in the world's largest metal consuming nation, unless China's biggest export market (Europe) show signs of stabilizing.

Note: This market commentary is written at 12:30 PM IST

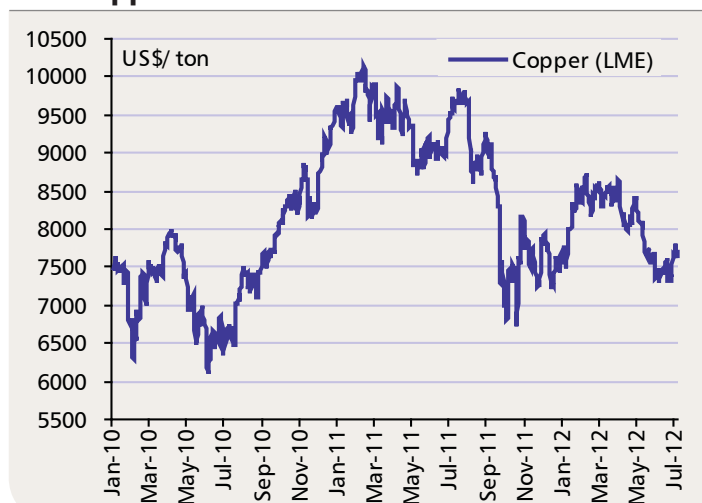
LME prices

| Base Metals (US\$/ton) | High | Low | LTP* | Chg(%) |
|------------------------|--------|--------|--------|--------|
| Copper | 7,823 | 7,381 | 7,670 | (0.2) |
| Nickel | 17,390 | 16,325 | 16,694 | (0.2) |
| Zinc | 1,932 | 1,785 | 1,865 | (0.6) |
| Aluminium | 1,993 | 1,847 | 1,933 | 1.2 |
| Lead | 1,942 | 1,770 | 1,884 | 1.2 |

| Precious Metals (US\$/ounce) | High | Low | LTP* | Chg(%) |
|------------------------------|-------|-------|-------|--------|
| Spot Gold | 1,625 | 1,551 | 1,593 | (0.3) |
| Spot Silver | 28 | 26 | 27 | (0.3) |

* Last Traded Price

LME Copper



Precious metals

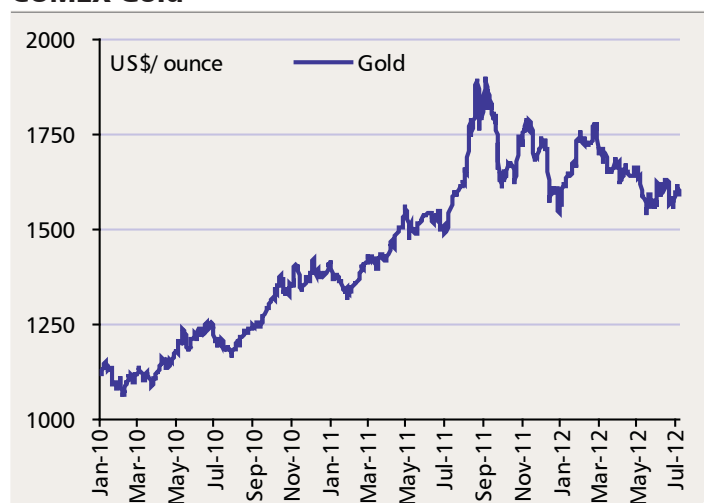
Gold prices have able to sustain most of the gains witnessed during the past few days. The yellow metal has been substantially helped by the policy announcements in Europe. EU officials have agreed to recapitalize struggling banks directly with bailout funds once a single banking supervisor is in place, which is expected to happen by the end of the year. During the week, market focus was also accentuated on the interest rate cut decision in Europe. In this regard, ECB has cut its interest rate to a record low of .75% and its deposit rate to zero. However, gold prices did not react in positive manner, as euro weakened and effectively weighed on the complete commodity complex.

International Gold prices have been constrained in the familiar range of US\$1,530 - US\$1,640 for past two months. Prices have been unable to register any significant breakout on the either side, with US1,530 acting a formidable support and US\$1,640 as a redundant upside barrier. Nonetheless, the prevalent macroeconomic backdrop suggests that the global economy seems to be struggling, which effectively can compel economic regimes on the both sides of Atlantic (Europe & US) to initiate further quantitative easing measures. Considering that odds remain high for such a scenario, we remain friendly to the yellow metal in the medium to long term perspective.

Weekly inventory update

| | Tons | Abs Chg. | Chg (%) |
|--------------------|-----------|----------|---------|
| Copper (LME) | 254,450 | (2,700) | (1.0) |
| Nickel (LME) | 103,854 | 1,002 | 1.0 |
| Zinc (LME) | 990,850 | (2,675) | (0.3) |
| Aluminium (LME) | 4,818,725 | (15,200) | (0.3) |
| Lead (LME) | 348,475 | (1,825) | (0.5) |
| Tin (LME) | 12,735 | 475 | 3.9 |
| Shanghai Copper | 155,237 | 15,795 | 11.3 |
| Shanghai Zinc | 329,636 | (1,563) | (0.5) |
| Shanghai Aluminium | 306,379 | (6,098) | (2.0) |

COMEX Gold



India Infoline Weekly Wrap

Mutual Fund Round-up

India Infoline picks

| Mutual Funds | Assets (₹ Cr) | NAV (₹) | Absolute return (%) as on July 06, 2012 | | | | | | | |
|------------------------------|------------------|------------|-----------------------------------------|------|------|------|-------|------|------|------|
| | | | 1wk | 1mth | 3mth | 6mth | 1yr | 2yr | 3yr | 5yr |
| HDFC Top 200(G) | 10,692 | 202.9 | 1.7 | 7.2 | 1.8 | 15.5 | (4.5) | 4.5 | 43.9 | 65.6 |
| ICICI Pru Dynamic(G) | 4,130 | 107.2 | 1.9 | 6.2 | 1.7 | 15.6 | (1.1) | 7.9 | 58.2 | 50.3 |
| IDFC Sterling Equity(G) | 1,061 | 18.8 | 1.6 | 5.1 | 1.9 | 25.1 | (0.4) | 8.0 | 74.5 | - |
| Fidelity Tax Advt(G) | 1,203 | 21.0 | 1.1 | 5.3 | 0.4 | 11.6 | (4.8) | 2.5 | 52.8 | 45.0 |
| HDFC Prudence(G) | 6,356 | 218.0 | 2.0 | 4.7 | 1.9 | 15.1 | (0.2) | 11.0 | 64.7 | 73.4 |
| Reliance Equity Oppor-Ret(G) | 3,193 | 38.3 | 2.9 | 7.0 | 4.6 | 24.5 | 3.4 | 15.0 | 94.8 | 60.8 |
| IDFC Premier Equity-A(G) | 2,345 | 34.0 | 2.3 | 5.7 | 2.6 | 17.6 | 3.3 | 13.3 | 76.7 | 92.9 |

Funds this week: HDFC Top 200 Fund

| Fund snapshot | | Asset allocation (%) | |
|-----------------|----------------------|--------------------------------|------|
| Fund Manager | Prashant Jain | Equity | 99.7 |
| Latest NAV | ₹202.9 | Debt | 0.0 |
| NAV 52 high/low | ₹218.7/168.1 | Cash/call | 0.2 |
| Latest AUM (cr) | ₹10,537 | Top 5 holdings (%) | |
| Type | Open-ended | State Bank of India | 6.7 |
| Class | Equity - Diversified | Infosys Ltd. | 6.5 |
| Options | Growth & dividend | ITC Ltd. | 5.3 |
| Min investment | ₹5,000 | ICICI Bank Ltd. | 5.2 |
| Benchmark | BSE 200 | Tata Consultancy Services Ltd. | 4.4 |
| No. of stocks | 66 | Top 3 sectors (%) | |
| No. of sectors | 30 | Banks | 22.9 |
| Expense ratio | 1.8% | Software | 11.9 |
| Exit load | 1% before 1 year | Consumer Non Durables | 10.5 |

Reliance Equity Opportunity Fund

| Fund snapshot | | Asset allocation (%) | |
|-----------------|--------------------------|----------------------|------|
| Fund Manager | Shailesh Raj Bhan | Equity | 95.3 |
| Latest NAV | ₹38.3 | Debt | 0.0 |
| NAV 52 high/low | ₹37.7/29.3 | Cash/call | 4.7 |
| Latest AUM (cr) | ₹3,159 | Top 5 holdings (%) | |
| Type | Open-ended | Infosys Ltd. | 6.6 |
| Class | Equity - Diversified | Aventis Pharma Ltd. | 5.8 |
| Options | Growth, Dividend & Bonus | Divis Labs | 5.8 |
| Min investment | ₹5,000 | SBI | 4.1 |
| Benchmark | BSE 100 | Trent | 3.9 |
| No. of stocks | 34 | Top 3 sectors (%) | |
| No. of sectors | 21 | I.T. | 16.9 |
| Expense ratio | 1.85% | Healthcare | 16.8 |
| Exit load | 1% before 1 year | Auto | 10.4 |

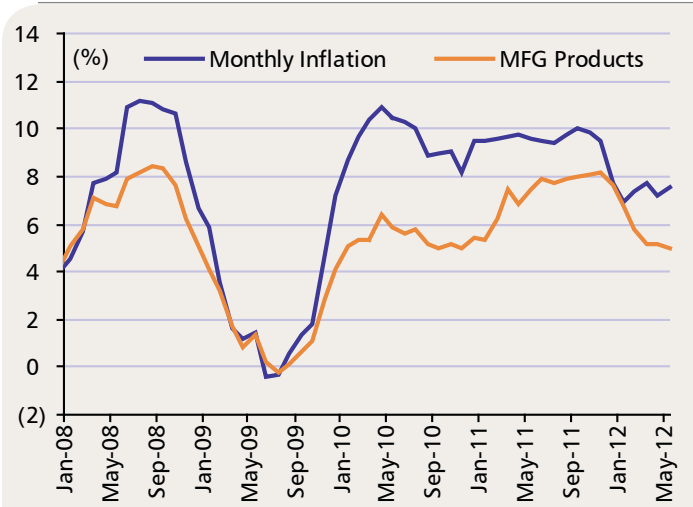
NFO update

| Fund Name | Close | Type | Class |
|----------------------------------------|--------|------|---------------|
| HDFC FMP 371D July-12 Sr-22 (1) (D) | 10-Jul | CE | Debt |
| IDFC FMP- 366 Days Sr-75 (D) | 10-Jul | CE | Debt |
| Birla SL CPOF - Sr-10 (36 months) | 09-Jul | CE | Debt & Equity |

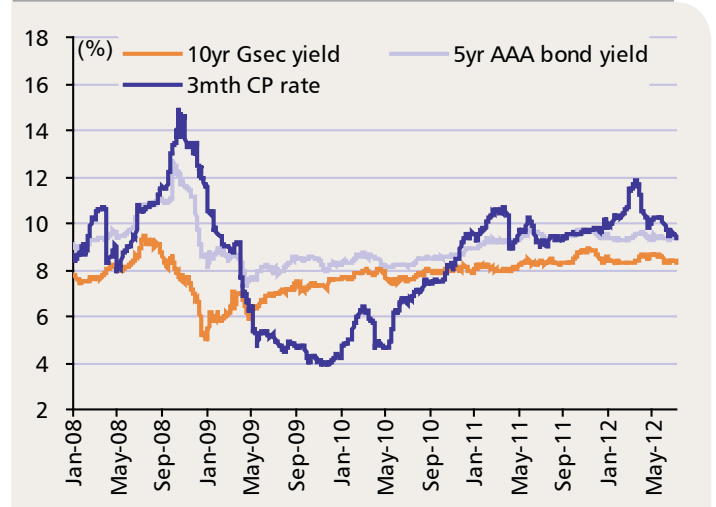
India Infoline Weekly Wrap

Chartbook

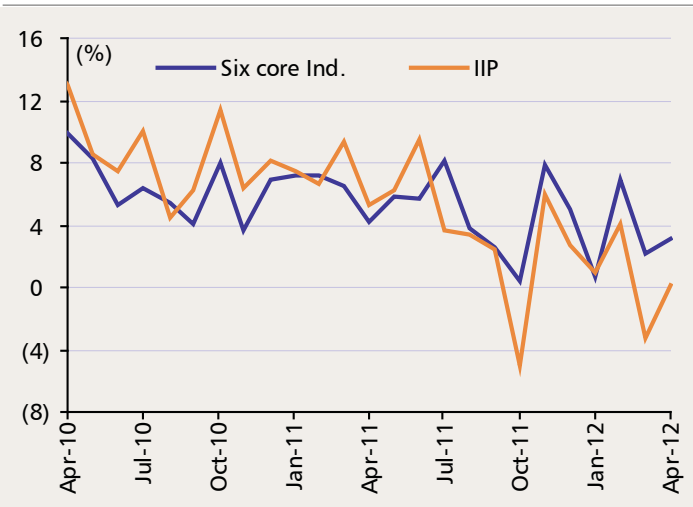
Inflation



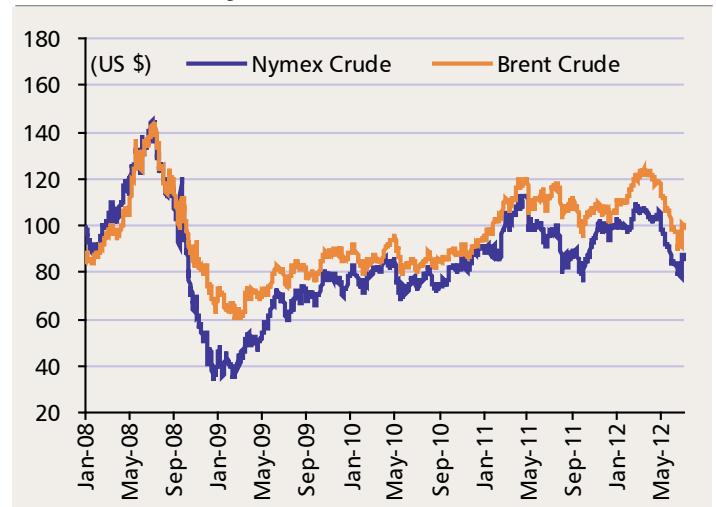
Interest Rate



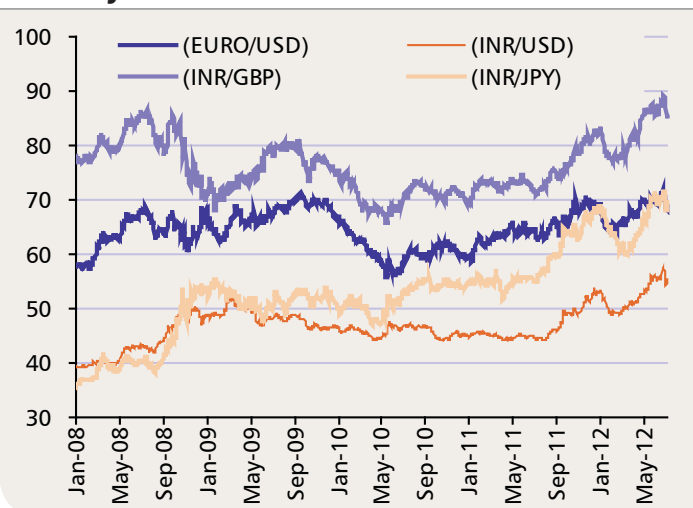
IIP and Six core Industries



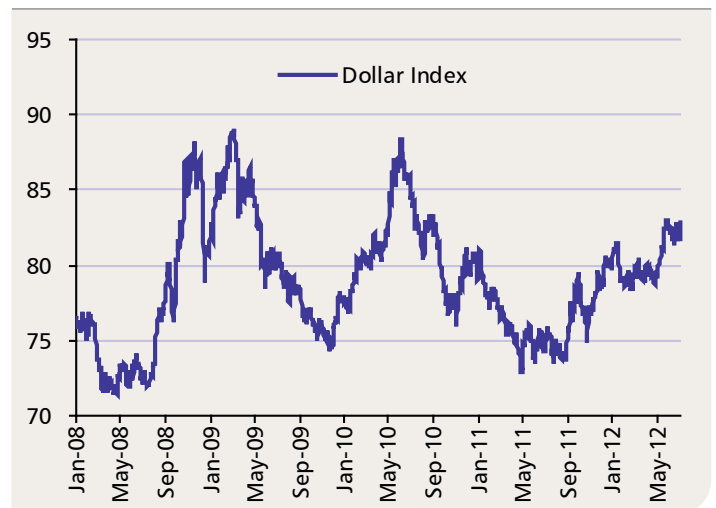
Crude (Brent/ Nymex)



Currency Movements



Dollar Index

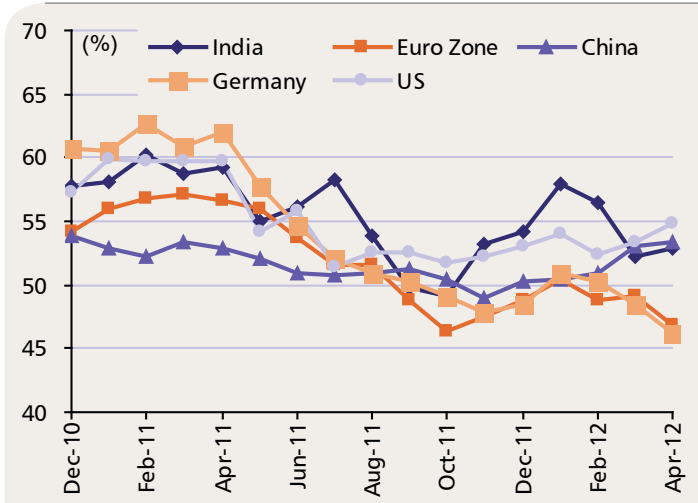


Source: Bloomberg

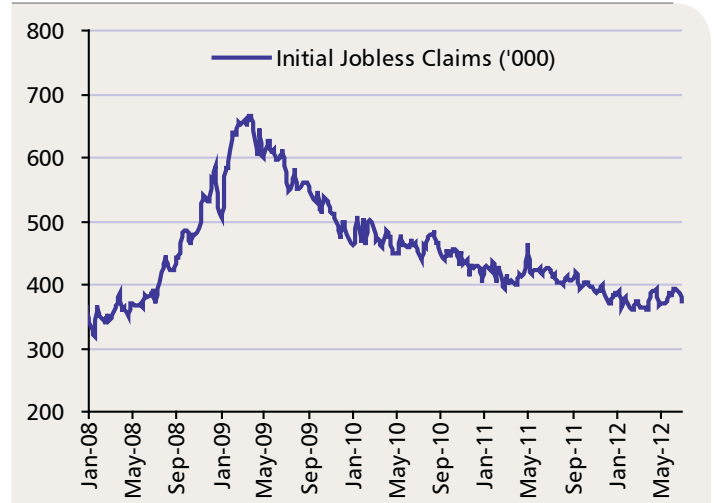
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Chartbook...

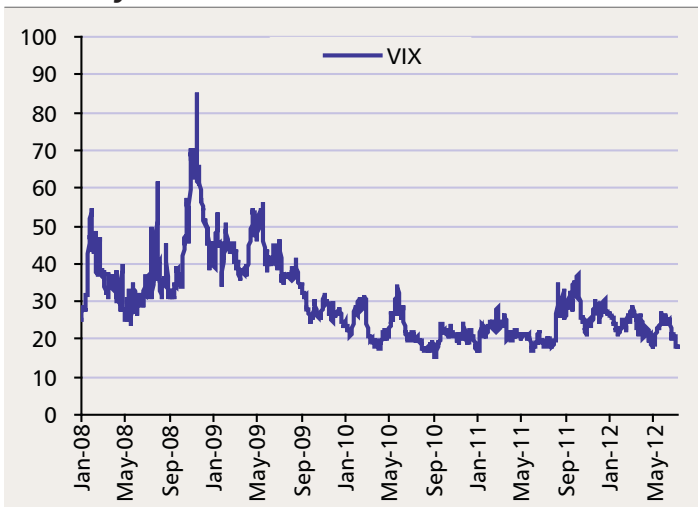
PMI



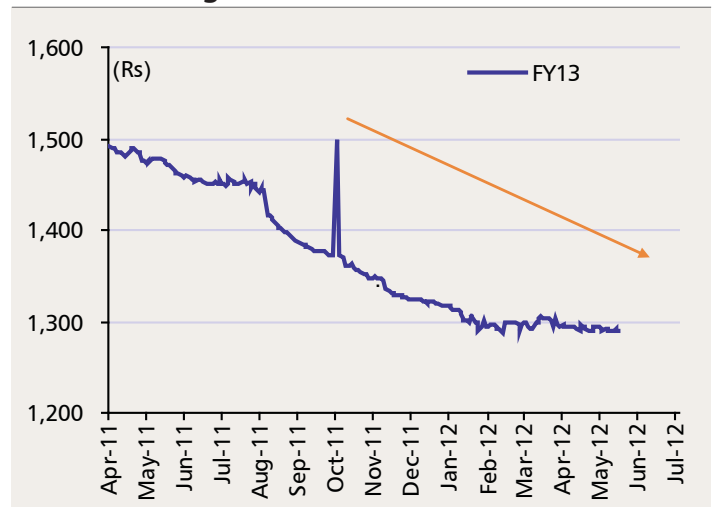
US Initial Jobless Claims



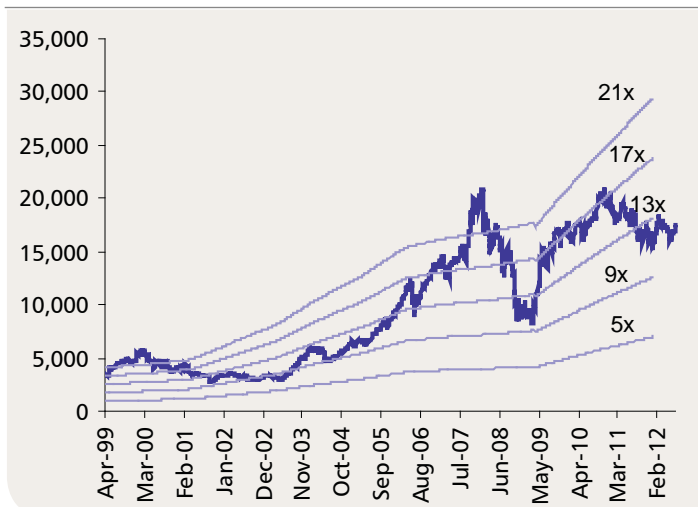
Volatility Index



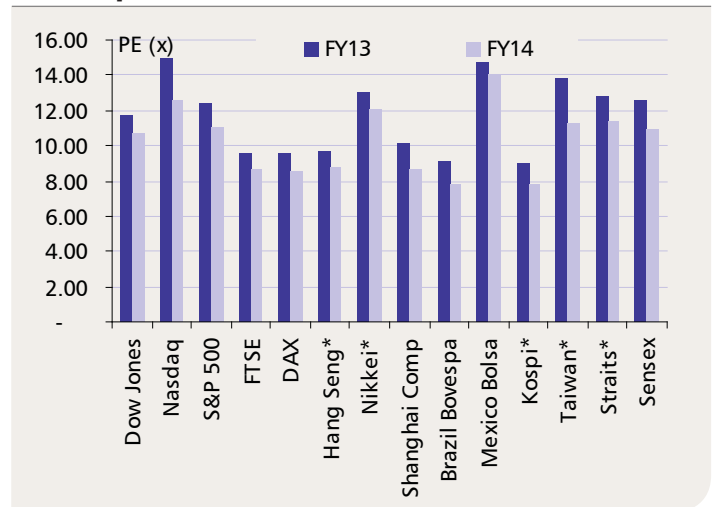
Sensex Earning Estimates



Sensex PE Band



PE Comparison



Source: Bloomberg

India Infoline Weekly Wrap

News Recap

Controlling fiscal deficit, achieving clarity on tax matters, reviving the mutual funds & insurance industries, clearing a backlog of foreign investment proposals and boosting infrastructure will be the main focus areas in the short term, the Prime Minister told a national daily.

Below-average southwest monsoon in June in key growing areas could affect pulses output in 2012-13 kharif season but rice production is unlikely to be affected, Agriculture Minister Sharad Pawar said. He also said that the Government was prepared to meet any eventuality on monsoon. **Separately, Pawar resigned as the Chairman of the Empowered Group of Ministers (EGoM) on telecom.** Pawar reportedly said his association with the decision-making process could motivate vested elements to drag his name into the telecom controversy.

Mauritius denied a newspaper report that it offered India two islands to continue with the 1983 double-taxation avoidance treaty (DTAT). Meanwhile, **India assured Mauritius that the island nation's concerns would be addressed while revising the tax treaty between the two nations.**

The rupee lost further ground against the US dollar on Friday following increased demand for the greenback from importers. The dollar also strengthened in the overseas markets against the euro and other currencies after central banks in China, Europe and UK announced fresh monetary easing. The rupee fell the most in two weeks on Friday. The local currency pared this week's gain after the ECB President Mario Draghi avoided questions on further monetary easing.

Inflation will stay high for couple of months before easing in

September, said Kaushik Basu, the outgoing chief economic advisor to the Finance Ministry. **India's exports fell by 4% in May while imports were down 7%**, resulting in a narrow trade gap from last year. However, the trade deficit was higher compared to April. India's manufacturing PMI rose marginally in June while the services output dipped in June, two separate HSBC surveys showed.

The Government is making all efforts to revive its executive order on allowing up to 51% FDI into multi-brand FDI. Reports said the same could be announced after the presidential polls. The Telecom Disputes Settlement Appellate Tribunal (TDSAT) gave a split verdict on 3G roaming which means that operators will continue to offer roaming services until the deadlock is broken. **SREI Infra bought US\$72mn of Kingfisher Airlines debt from ICICI Bank.** Fitch affirmed its rating of SAIL at 'BBB-' but maintained a negative outlook. **Aditya Birla Group said it would acquire Terrace Bay Pulp Mill in North America.**

China's central bank cut its benchmark lending and deposit rates in a bid to lift GDP growth. The ECB cut its refinancing rate by 25 bps to a record low 0.75% while the Bank of England (BOE) expanded the size of its asset-purchase program. Outlook for global economy has worsened, said IMF MD Christine Lagarde.

Robert Edward "Bob" Diamond, the ex-CEO at Barclays Plc, testified in front of a UK parliamentary committee over the interest-rate fixing scandal. Diamond apologised for the reprehensible behaviour of his traders who fixed interest rates. Diamond and the company's chief operating officer stepped down in the wake of the London Interbank Offered Rate (Libor) scandal.

Event Calendar

Period : 09th – 13th July

US

- May Wholesale Inventories (11 Jul)
- Minutes of FOMC Meeting (11 Jul)
- Jun Import Price Index YoY (12 Jul)
- Jun PPI Ex Food & Energy YoY (13 Jul)

India

- **May Industrial Production YoY (12 Jul)**
- **Food & Primary Articles WPI YoY (12 Jul)**
- **Jun Monthly Wholesale Prices YoY (13 Jul)**

China

- Jun Foreign Exchange Reserves (11-15 Jul)
- Money Supply - M1 YoY (11-15 Jun)
- Jun Actual FDI YoY (14-18 Jul)

Euro Zone

- Jul Sentix Investor Confidence (9 Jul)
- Euro-Zone Ind. Prod YoY (12 Jul)

Period : 16th – 20th July

US

- Jun Consumer Price Index YoY (17 Jul)
- Jun Consumer Price Index (17 Jul)
- Jun Industrial Production (17 Jul)
- Jun Housing Starts MOM% (18 Jul)

India

- **Food Articles WPI YoY (19 Jul)**
- **Primary Articles WPI YOY (19 Jul)**
- **Fuel Power Light WPI YoY (19 Jul)**

China

- Jun Actual FDI YoY (14-18 Jul)
- China June property prices (18 Jul)

Euro Zone

- Jun Euro-Zone CPI - Core YoY (16 Jul)
- May Euro-Zone Trade Balance (16 Jul)
- May Euro-Zone Current Account (19 Jul)

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