

Hindustan Zinc (HZ IN)

Rating: HOLD | CMP: Rs220 | TP: Rs225

July 19, 2019

Q1FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	225		240	
Sales (Rs. m)	212,938	233,240	220,279	237,000
% Chng.	(3.3)	(1.6)		
EBITDA (Rs. m)	103,396	110,556	112,493	118,440
% Chng.	(8.1)	(6.7)		
EPS (Rs.)	17.1	18.3	19.3	20.5
% Chng.	(11.4)	(10.8)		

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	220,820	211,180	212,938	233,240
EBITDA (Rs. m)	122,700	106,700	103,396	110,556
Margin (%)	55.6	50.5	48.6	47.4
PAT (Rs. m)	90,979	79,560	72,088	77,424
EPS (Rs.)	21.5	18.8	17.1	18.3
Gr. (%)	9.4	(12.6)	(9.4)	7.4
DPS (Rs.)	8.0	20.0	8.5	9.2
Yield (%)	3.6	9.1	3.9	4.2
RoE (%)	27.3	22.9	20.6	20.4
RoCE (%)	28.9	24.4	21.6	21.3
EV/Sales (x)	3.2	3.6	3.5	3.0
EV/EBITDA (x)	5.8	7.1	7.1	6.4
PE (x)	10.2	11.7	12.9	12.0
P/BV (x)	2.6	2.8	2.5	2.4

Key Data

HZNC.BO | HZ IN

52-W High / Low	Rs.292 / Rs.218	
Sensex / Nifty	38,337 / 11,419	
Market Cap	Rs.930bn/ \$ 13,488m	
Shares Outstanding	4,225m	
3M Avg. Daily Value	Rs.355.71m	

Shareholding Pattern (%)

Promoter's	64.92
Foreign	1.35
Domestic Institution	2.55
Public & Others	31.14
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.1)	(19.2)	(12.0)
Relative	(3.2)	(23.3)	(16.6)

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Higher costs led the miss; Reiterate Hold

Hindustan Zinc (HZ) reported EBITDA below our expectation by 3% (in line with consensus) due to lower than expected Lead/Silver volumes and higher power cost. Earnings visibility continued to worsen due to volatile ore grade. Ore grade slipped 0.3% QoQ to 7.5% despite low base. Deteriorating ore grade and peaked-out supply deficit would keep stock under pressure. We cut our earnings estimates by 11%/11% for FY20E/FY21E to factor in lower ore grade. We maintain HOLD with TP of Rs225 (earlier Rs240), EV/EBITDA of 6x FY21e.

- Higher than expected costs and lower volumes led the miss:** Metal sales volume rose marginally by 1% to 215kt (PLe:219kt), impacted by smelter shutdown and weak demand. Silver sales volume rose 10% YoY to 159t, significantly below our estimate of 174kt due to lower lead production and softer grade. Realisations came in marginally above our estimates by 0.8% due to higher premiums. Unitary cost fell 5% YoY (↓1% QoQ) lower than our estimate of 6% fall. The miss came due to higher power costs and fall in grades. Marred by lower than expected volumes and higher costs, EBITDA came in below our estimates at Rs24.8bn (PLe:Rs25.4bn), down 8.7% YoY/11% QoQ. Impacted by higher than expected depreciation and lower other income, PAT fell short of our estimates at Rs17.7bn (PLe:Rs19.3bn), ↓8% YoY/↓12% QoQ.
- Key highlights of con-call:** 1) Global Zinc production is expected to remain in deficit for couple of year due to Chinese zinc production falling short of expectation and slower capacity addition 2) Mined metal/Silver production guidance for FY20e at 1mnt/750-800t; Targeting to reach 1kt silver production in next couple of year 3) Reiterated Zinc CoP guidance for FY20e at US\$1,000/t led by lower coal costs and improvement in grades 4) Coal cost expected to come down in Q2/Q3; ~25% of total coal requirement met through linkages 5) The proposed increase in electricity duty to Rs1/unit (from current Rs0.4/unit) by Rajasthan Govt would increase cost by US\$35/t 6) CoP increased by US\$15/t QoQ due to lower grades 7) Booked one-time gain of Rs2bn in employee cost related to reversal of incentives and bonus provision
- Expansion plan on track:** 1) Will achieve mined metal capacity of 1.2mt in Q3FY20e 2) Fumer project at Chanderia delayed due to normal teething issues and is expected to commission in Q2FY20e. Project would increase silver production by ~35t per annum 3) Expects shaft commissioning at Rampura Agucha (RA) mine by early Q3FY20e 4) Would commissioned augmented shaft capacity at Rajpura Dariba mine from current 0.7mnt to 1.3mnt by Q3FY20e

Exhibit 1: Q1FY20 Result Overview

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Net Sales	49,870	53,100	(6.1)	54,910	212,938	211,180	0.8
Raw material consumed	(60)	410	-	250	-	(640)	(100.0)
<i>% of Net Sales</i>	<i>-0.1</i>	<i>0.8</i>		<i>0.5</i>	<i>0.0</i>	<i>-0.3</i>	
Power and fuel	4,450	4,400	1.1	3,870	16,863	17,580	(4.1)
<i>% of Net Sales</i>	<i>8.9</i>	<i>8.3</i>		<i>7.0</i>	<i>7.9</i>	<i>8.3</i>	
Mining Royalty Rates	5,940	6,310	(5.9)	6,990	27,491	26,280	4.6
<i>% of Net Sales</i>	<i>11.9</i>	<i>11.9</i>		<i>12.7</i>	<i>12.9</i>	<i>12.4</i>	
Employee Cost	1,820	2,320	(21.6)	2,130	9,412	9,050	4.0
<i>% of Net Sales</i>	<i>3.6</i>	<i>4.4</i>		<i>3.9</i>	<i>4.4</i>	<i>4.3</i>	
Selling, general and administrative	12,950	12,530	3.4	13,780	55,776	52,170	6.9
<i>% of Net Sales</i>	<i>26.0</i>	<i>23.6</i>		<i>25.1</i>	<i>26.2</i>	<i>24.7</i>	
Total Expenditure	25,100	25,970	(3.4)	27,020	109,542	104,440	4.9
EBITDA	24,770	27,130	(8.7)	27,890	103,396	106,740	(3.1)
<i>Margin (%)</i>	<i>49.7</i>	<i>51.1</i>		<i>50.8</i>	<i>48.6</i>	<i>50.5</i>	
Depreciation	5,340	3,870	38.0	5,530	22,225	18,830	18.0
Other income	4,290	2,990	43.5	5,390	16,570	17,820	(7.0)
EBIT	23,720	26,250	(9.6)	27,750	97,741	105,730	(7.6)
Interest	290	150	93.3	510	2,260	1,170	93.2
PBT	23,430	26,100	(10.2)	27,240	95,481	104,560	(8.7)
Extraordinary income/(expense)	-	-		-	-	-	
PBT (After EO)	23,430	26,100	(10.2)	27,240	95,481	104,560	(8.7)
Tax	5,780	6,920	(16.5)	7,120	23,393	25,000	(6.4)
<i>% PBT</i>	<i>24.7</i>	<i>26.5</i>		<i>26.1</i>	<i>24.5</i>	<i>23.9</i>	
Reported PAT	17,650	19,180	(8.0)	20,120	72,088	79,560	(9.4)
Adjusted PAT	17,650	19,180	(8.0)	20,120	72,088	79,560	(9.4)

Source: Company, PL

Exhibit 2: Key Operating Metrics

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
LME Zinc average (US\$/t)	2,763	3,112	(11.2)	2,702	2,746	2,746	-
LME Lead average (US\$/t)	1,885	2,388	(21.1)	2,036	2,123	2,123	-
Production volume							
- Mined metal (Zinc+Lead)-tonnes	213,000	212,000	0.5	245,000	937,000	936,000	0.1
- Refined metal (Zinc+Lead)-tonnes	220,000	213,495	3.0	227,299	892,000	894,121	(0.2)
- Silver (kgs)	159,000	138,000	15.2	191,000	728,371	713,000	2.2
Sales volume							
- Refined Zinc	167,500	170,000	(1.5)	177,000	746,280	694,000	7.5
- Refined Lead	47,500	42,000	13.1	52,000	195,443	197,000	(0.8)
- Silver (kgs)	155,000	141,000	9.9	199,000	692,350	679,000	2.0

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	220,820	211,180	212,938	233,240
YoY gr. (%)	27.8	(4.4)	0.8	9.5
Cost of Goods Sold	-	-	-	-
Gross Profit	220,820	211,180	212,938	233,240
Margin (%)	100.0	100.0	100.0	100.0
Employee Cost	7,760	9,050	9,412	9,788
Other Expenses	-	-	-	-
EBITDA	122,700	106,700	103,396	110,556
YoY gr. (%)	26.0	(13.0)	(3.1)	6.9
Margin (%)	55.6	50.5	48.6	47.4
Depreciation and Amortization	14,830	18,830	22,225	24,331
EBIT	107,870	87,870	81,170	86,225
Margin (%)	48.8	41.6	38.1	37.0
Net Interest	2,460	1,130	2,260	2,260
Other Income	17,160	17,820	16,570	18,584
Profit Before Tax	124,970	104,560	95,481	102,548
Margin (%)	56.6	49.5	44.8	44.0
Total Tax	32,210	25,000	23,393	25,124
Effective tax rate (%)	25.8	23.9	24.5	24.5
Profit after tax	92,760	79,560	72,088	77,424
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	90,979	79,560	72,088	77,424
YoY gr. (%)	9.4	(12.6)	(9.4)	7.4
Margin (%)	41.2	37.7	33.9	33.2
Extra Ord. Income / (Exp)	1,781	-	-	-
Reported PAT	92,760	79,560	72,088	77,424
YoY gr. (%)	11.5	(14.2)	(9.4)	7.4
Margin (%)	42.0	37.7	33.9	33.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	92,760	79,560	72,088	77,424
Equity Shares O/s (m)	4,225	4,225	4,225	4,225
EPS (Rs)	21.5	18.8	17.1	18.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	206,570	258,410	298,410	303,410
Tangibles	206,570	258,410	298,410	303,410
Intangibles	-	-	-	-
Acc: Dep / Amortization	93,550	110,630	132,855	157,186
Tangibles	93,550	110,630	132,855	157,186
Intangibles	-	-	-	-
Net fixed assets	113,020	147,780	165,555	146,224
Tangibles	113,020	147,780	165,555	146,224
Intangibles	-	-	-	-
Capital Work In Progress	39,710	24,990	18,190	42,940
Goodwill	-	-	-	-
Non-Current Investments	150	130	130	130
Net Deferred tax assets	22,080	19,250	16,386	13,309
Other Non-Current Assets	12,930	16,710	16,710	16,710
Current Assets				
Investments	202,220	194,880	194,880	194,880
Inventories	13,790	15,440	15,541	17,043
Trade receivables	1,840	1,960	1,976	2,167
Cash & Bank Balance	19,640	230	21,508	52,287
Other Current Assets	110	40	40	40
Total Assets	429,320	424,580	454,086	488,900
Equity				
Equity Share Capital	8,450	8,450	8,450	8,450
Other Equity	350,870	327,600	356,305	387,136
Total Network	359,320	336,050	364,755	395,586
Non-Current Liabilities				
Long Term borrowings	-	25,380	25,380	25,380
Provisions	1,340	1,450	1,450	1,450
Other non current liabilities	7,920	9,450	9,950	10,450
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	9,470	11,740	11,838	12,983
Other current liabilities	50,580	40,320	40,522	42,862
Total Equity & Liabilities	429,320	424,580	454,086	488,900

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	124,970	104,560	95,481	102,548
Add. Depreciation	14,830	18,830	22,225	24,331
Add. Interest	2,460	1,130	2,260	2,260
Less Financial Other Income	17,160	17,820	16,570	18,584
Add. Other	(19,150)	(17,820)	(16,570)	(18,584)
Op. profit before WC changes	123,110	106,700	103,396	110,556
Net Changes-WC	5,170	6,710	683	2,292
Direct tax	(30,280)	(25,600)	(20,528)	(22,048)
Net cash from Op. activities	98,000	87,810	83,550	90,800
Capital expenditures	(27,230)	(33,410)	(33,200)	(29,750)
Interest / Dividend Income	4,990	2,530	16,570	18,584
Others	46,200	19,960	-	-
Net Cash from Invt. activities	23,960	(10,920)	(16,630)	(11,166)
Issue of share cap. / premium	-	-	-	-
Debt changes	(79,000)	25,360	-	-
Dividend paid	(104,690)	(119,580)	(43,382)	(46,594)
Interest paid	(2,430)	(2,080)	(2,260)	(2,260)
Others	-	-	-	-
Net cash from Fin. activities	(186,120)	(96,300)	(45,642)	(48,854)
Net change in cash	(64,160)	(19,410)	21,278	30,779
Free Cash Flow	70,770	54,400	50,350	61,050

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	47,770	55,400	54,910	49,870
YoY gr. (%)	(10.0)	(6.5)	(12.5)	(6.1)
Raw Material Expenses	(1,050)	(250)	250	(60)
Gross Profit	48,820	55,650	54,660	49,930
Margin (%)	102.2	100.5	99.5	100.1
EBITDA	23,340	28,380	27,890	24,770
YoY gr. (%)	(22.8)	(12.5)	(23.0)	(8.7)
Margin (%)	48.9	51.2	50.8	49.7
Depreciation / Depletion	4,540	4,890	5,530	5,340
EBIT	18,800	23,490	22,360	19,430
Margin (%)	39.4	42.4	40.7	39.0
Net Interest	-	510	510	290
Other Income	3,940	5,500	5,390	4,290
Profit before Tax	22,740	28,480	27,240	23,430
Margin (%)	47.6	51.4	49.6	47.0
Total Tax	4,590	6,370	7,120	5,780
Effective tax rate (%)	20.2	22.4	26.1	24.7
Profit after Tax	18,150	22,110	20,120	17,650
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	18,150	22,110	20,120	17,650
YoY gr. (%)	(23.1)	(3.8)	(20.8)	(8.0)
Margin (%)	38.0	39.9	36.6	35.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	18,150	22,110	20,120	17,650
YoY gr. (%)	(29.8)	(3.8)	(19.7)	(8.0)
Margin (%)	38.0	39.9	36.6	35.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	18,150	22,110	20,120	17,650
Avg. Shares O/s (m)	4,225	4,225	4,225	4,225
EPS (Rs)	4.3	5.2	4.8	4.2

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	21.5	18.8	17.1	18.3
CEPS	25.0	23.3	22.3	24.1
BVPS	85.0	79.5	86.3	93.6
FCF	16.8	12.9	11.9	14.4
DPS	8.0	20.0	8.5	9.2
Return Ratio(%)				
RoCE	28.9	24.4	21.6	21.3
ROIC	52.9	40.5	38.4	41.1
RoE	27.3	22.9	20.6	20.4
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.5)	(0.5)	(0.6)
Net Working Capital (Days)	10	10	10	10
Valuation(x)				
PER	10.2	11.7	12.9	12.0
P/B	2.6	2.8	2.5	2.4
P/CEPS	8.8	9.4	9.9	9.1
EV/EBITDA	5.8	7.1	7.1	6.4
EV/Sales	3.2	3.6	3.5	3.0
Dividend Yield (%)	3.6	9.1	3.9	4.2

Source: Company Data, PL Research

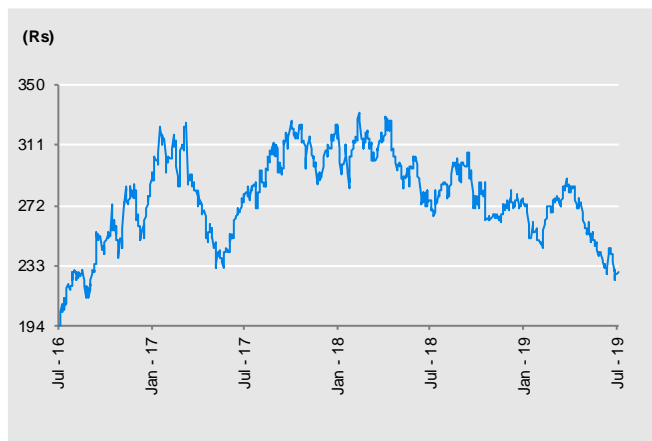
Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Mined Zinc metal prod-MIC tns	773,100	729,000	774,953	848,317
Mined Lead metal prod-MIC tns	174,800	208,000	210,756	244,347
Total Mines metal-MIC tns	947,900	937,000	985,709	1,092,664
Refined Zinc Vol. (tonnes)	793,000	694,000	746,280	816,932
Refined Lead Vol. (tonnes)	169,000	198,000	195,443	226,944
Total Refined metal-tns	962,000	892,000	941,723	1,043,877
Concentrate sales vol (MIC tns)		5,213	1	0
Silver Sales Vol. (kg)	556,000	676,000	692,350	804,534
Zinc (US\$)-LME / tonne	3,057	2,743	2,650	2,600
Lead(US\$)-LME / tonne	2,379	2,121	1,988	1,950
Silver (Rs / Kg)	36,095	38,442	37,800	37,800
Cost per tonne of Refined metal (Zn+Pb)	101,996	117,130	116,321	117,527

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	Hold	240	240
2	2-May-19	Hold	275	272
3	5-Apr-19	Hold	275	289
4	21-Jan-19	Hold	275	268
5	7-Jan-19	Accumulate	312	275
6	5-Oct-18	Accumulate	315	289

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,800	1,567
2	Ambuja Cement	Hold	210	216
3	Coal India	Hold	265	251
4	Heidelberg Cement India	Accumulate	220	204
5	Hindalco Industries	Accumulate	230	207
6	Hindustan Zinc	Hold	240	240
7	Jindal Steel & Power	BUY	170	142
8	JK Lakshmi Cement	Accumulate	401	333
9	JSW Steel	Reduce	360	275
10	NMDC	Reduce	112	117
11	Shree Cement	Reduce	19,750	21,648
12	Steel Authority of India	Reduce	45	52
13	Tata Steel	BUY	600	495
14	The Ramco Cements	Hold	820	790
15	Ultratech Cement	BUY	5,175	4,645

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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