

January 21, 2020

## Q3FY20 Result Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
<b>Rating</b>	HOLD		HOLD	
<b>Target Price</b>	235		235	
Sales (Rs. m)	233,414	252,641	233,414	252,641
% Chng.	-	-	-	-
EBITDA (Rs. m)	113,035	119,745	113,035	119,745
% Chng.	-	-	-	-
EPS (Rs.)	18.8	20.2	18.8	20.2
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	211,180	209,318	233,414	252,641
EBITDA (Rs. m)	106,700	101,658	113,035	119,745
Margin (%)	50.5	48.6	48.4	47.4
PAT (Rs. m)	79,560	76,493	79,529	85,237
EPS (Rs.)	18.8	18.1	18.8	20.2
Gr. (%)	(12.6)	(3.9)	4.0	7.2
DPS (Rs.)	20.0	10.9	11.3	12.1
Yield (%)	9.4	5.1	5.3	5.7
RoE (%)	22.9	22.1	21.6	21.8
RoCE (%)	24.4	21.8	23.5	23.4
EV/Sales (x)	3.4	3.4	2.9	2.6
EV/EBITDA (x)	6.8	7.0	6.0	5.4
PE (x)	11.3	11.7	11.3	10.5
P/BV (x)	2.7	2.5	2.4	2.2

### Key Data

HZNC.BO | HZ IN

52-W High / Low	Rs.292 / Rs.193
Sensex / Nifty	41,324 / 12,170
Market Cap	Rs.897bn / \$ 12,609m
Shares Outstanding	4,225m
3M Avg. Daily Value	Rs.304.89m

### Shareholding Pattern (%)

Promoter's	64.92
Foreign	1.10
Domestic Institution	2.73
Public & Others	31.25
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	1.9	(3.5)	(20.6)
Relative	2.8	(10.5)	(29.7)

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## Earnings in line; grade improvement remains the key

### Quick Pointers:

- Ore grade to improve in Q1FY21 on the back of shaft commissioning
- Cost of production (CoP) to come down to USD870-900/t over couple of years

**Hindustan Zinc (HZ) reported earnings in line with ours/consensus estimates. Earnings visibility continued to remain weak due to deteriorating ore grade and resultant higher cost of production (CoP). Zinc prices moved up by 5% in last one month due to production restrictions in China and improvement in sentiments related to USA-China Trade war. However, we do not see prices to sustain for long due to weaker demand. We maintain HOLD with TP of Rs235, EV/EBITDA of 6x FY21e.**

- **Lower costs helped mitigate impact of lower zinc volumes:** Metal sales volume rose marginally by 1% QoQ (↓11% YoY) to 219kt (PLe:220kt) due to temporary issues at Debariya smelter. Silver volumes rose 14% QoQ (↓14% YoY) to 155t, above our estimate of 130t due to higher silver grades at SK mines. Metal realisations came below our estimates by 1.5% at USD2,542 due to lower premiums. Total cost/t fell 2.5% QoQ/0.7% YoY at USD1,567, in line with our estimate. Led by higher silver volumes, EBITDA came in line with our estimates at Rs22.9bn (PLe:Rs23.1bn), up 8% QoQ (down 19% YoY). Due to lower than expected MTM gains on treasury investments, PBT fell short of our est. at Rs21bn (PLe:Rs23.4bn), flat QoQ/↓26% YoY. PAT fell 5.6% QoQ/↓27% YoY to Rs16.2bn (PLe:18.7bn) owing to higher tax rate (22.7% v/s PLe:20%)
- **Key highlights of con-call: 1)** Global mine metal production is ~600kt lower than expectation in CY19 due to Impact of environmental issues in China and slow ramp-up of new capacities **2)** Reiterated MIC production for FY20e at 950kt/650kt; However, guidance of refined metal production reduced to 910-915kt (earlier 950kt) due to smelter breakdown in Q3 **3)** Annual sustenance capex guidance at \$250-300mn largely on mine development plan; Reiterated growth capex at US\$300mn for FY20e **4)** One-time cost of US\$10/t on account of Roaster breakdown in Q3 **5)** Environment clearance (EC) for 0.7mnt fertilizer unit is expected in this month **6)** CoP will gradually reduce to US\$870-900/t in couple of years from current US\$1,065/7) Share of linkage coal fell 900bps QoQ to 22% due to increase in linkage coal prices and reduction in imported coal prices; Imported coal cost fell by 15% YoY in 9MFY20 **8)** Zinc premiums are under pressure for last two quarters and are down by US\$20-25/t because of weak price in few metal exchanges in South East Asia. **9)** Premiums will catch-up on the back of low zinc stock levels and lower mine supply
- **Expansion plan on track: 1)** Will achieve mined metal capacity of 1.2mt in Q4FY20e **2)** Fumer project at Chanderia delayed with revised commissioning expected in Feb'20 **3)** Expects shaft commissioning at Rampura Agucha (RA) mine by Feb'20; **4)** Ore grade would improve in Q1FY21 with commencement of production from shafts at RA and SK mines

**Exhibit 1: Q3FY20 Result Overview**

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	9MFY20	9MFY19	YoY gr. (%)
<b>Net Sales</b>	<b>46,720</b>	<b>55,400</b>	<b>(15.7)</b>	<b>45,110</b>	<b>1,41,700</b>	<b>1,56,270</b>	<b>(9.3)</b>
Raw material consumed	(1,710)	(250)	-	(140)	(1,910)	(890)	114.6
<i>% of Net Sales</i>	<i>-3.7</i>	<i>-0.5</i>		<i>-0.3</i>	<i>-1.3</i>	<i>-0.6</i>	
Power and fuel	4,040	4,930	(18.1)	4,130	12,620	13,710	(8.0)
<i>% of Net Sales</i>	<i>8.6</i>	<i>8.9</i>		<i>9.2</i>	<i>8.9</i>	<i>8.8</i>	
Mining Royalty Rates	6,130	6,700	(8.5)	5,390	17,460	19,290	(9.5)
<i>% of Net Sales</i>	<i>13.1</i>	<i>12.1</i>		<i>11.9</i>	<i>12.3</i>	<i>12.3</i>	
Employee Cost	2,010	2,150	(6.5)	1,920	5,750	6,920	(16.9)
<i>% of Net Sales</i>	<i>4.3</i>	<i>3.9</i>		<i>4.3</i>	<i>4.1</i>	<i>4.4</i>	
Selling, general and administrative	13,360	13,490	(1.0)	12,640	38,950	38,430	1.4
<i>% of Net Sales</i>	<i>28.6</i>	<i>24.4</i>		<i>28.0</i>	<i>27.5</i>	<i>24.6</i>	
Total Expenditure	23,830	27,020	(11.8)	23,940	72,870	77,460	(5.9)
<b>EBITDA</b>	<b>22,890</b>	<b>28,380</b>	<b>(19.3)</b>	<b>21,170</b>	<b>68,830</b>	<b>78,810</b>	<b>(12.7)</b>
<i>Margin (%)</i>	<i>49.0</i>	<i>51.2</i>		<i>46.9</i>	<i>48.6</i>	<i>50.4</i>	
Depreciation	5,970	4,890	22.1	5,950	17,260	13,300	29.8
Other income	4,450	5,500	(19.1)	5,900	14,640	12,470	17.4
<b>EBIT</b>	<b>21,370</b>	<b>28,990</b>	<b>(26.3)</b>	<b>21,120</b>	<b>66,210</b>	<b>77,980</b>	<b>(15.1)</b>
Interest	420	510	(17.6)	250	960	660	45.5
<b>PBT</b>	<b>20,950</b>	<b>28,480</b>	<b>(26.4)</b>	<b>20,870</b>	<b>65,250</b>	<b>77,320</b>	<b>(15.6)</b>
Extraordinary income/(expense)	-	-		-	-	-	
<b>PBT (After EO)</b>	<b>20,950</b>	<b>28,480</b>	<b>(26.4)</b>	<b>20,870</b>	<b>65,250</b>	<b>77,320</b>	<b>(15.6)</b>
Tax	4,750	6,370	(25.4)	60	10,590	17,880	(40.8)
<i>% PBT</i>	<i>22.7</i>	<i>22.4</i>		<i>0.3</i>	<i>16.2</i>	<i>23.1</i>	
<b>Reported PAT</b>	<b>16,200</b>	<b>22,110</b>	<b>(26.7)</b>	<b>20,810</b>	<b>54,660</b>	<b>59,440</b>	<b>(8.0)</b>
<b>Adjusted PAT</b>	<b>16,200</b>	<b>22,110</b>	<b>(26.7)</b>	<b>17,160</b>	<b>51,010</b>	<b>59,440</b>	<b>(14.2)</b>

Source: Company, PL

**Exhibit 2: Key Operating Metrics**

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	9MFY20	9MFY19	YoY gr. (%)
LME Zinc average (US\$/t)	2,388	2,631	(9.2)	2,348	2,500	2,760	(9.4)
LME Lead average (US\$/t)	2,045	1,964	4.1	2,028	1,986	2,152	(7.7)
Production volume							
- Mined metal (Zinc+Lead)-tonnes	2,35,000	2,47,000	(4.9)	2,19,000	6,67,000	6,91,000	(3.5)
- Refined metal (Zinc+Lead)-tonnes	2,19,000	2,41,745	(9.4)	2,10,150	6,48,341	6,66,822	(2.8)
- Silver (kgs)	1,49,000	1,78,000	(16.3)	1,34,000	4,42,000	4,88,000	(9.4)
Sales volume							
- Refined Zinc	1,72,000	1,87,000	(8.0)	1,67,900	5,07,400	5,17,000	(1.9)
- Refined Lead	42,000	54,000	(22.2)	43,900	1,33,400	1,45,000	(8.0)
- Silver (kgs)	1,53,000	1,78,000	(14.0)	1,34,700	4,42,700	4,80,000	(7.8)

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>211,180</b>	<b>209,318</b>	<b>233,414</b>	<b>252,641</b>
YoY gr. (%)	(4.4)	(0.9)	11.5	8.2
Cost of Goods Sold	-	-	-	-
Gross Profit	211,180	209,318	233,414	252,641
Margin (%)	100.0	100.0	100.0	100.0
Employee Cost	9,050	9,412	9,883	10,377
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>106,700</b>	<b>101,658</b>	<b>113,035</b>	<b>119,745</b>
YoY gr. (%)	(13.0)	(4.7)	11.2	5.9
Margin (%)	50.5	48.6	48.4	47.4
Depreciation and Amortization	18,830	23,386	26,578	28,191
<b>EBIT</b>	<b>87,870</b>	<b>78,271</b>	<b>86,457</b>	<b>91,554</b>
Margin (%)	41.6	37.4	37.0	36.2
Net Interest	1,130	571	-	-
Other Income	17,820	16,902	16,827	19,143
<b>Profit Before Tax</b>	<b>104,560</b>	<b>94,602</b>	<b>103,284</b>	<b>110,697</b>
Margin (%)	49.5	45.2	44.2	43.8
Total Tax	25,000	18,108	23,755	25,460
Effective tax rate (%)	23.9	19.1	23.0	23.0
<b>Profit after tax</b>	<b>79,560</b>	<b>76,493</b>	<b>79,529</b>	<b>85,237</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>79,560</b>	<b>76,493</b>	<b>79,529</b>	<b>85,237</b>
YoY gr. (%)	(12.6)	(3.9)	4.0	7.2
Margin (%)	37.7	36.5	34.1	33.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>79,560</b>	<b>76,493</b>	<b>79,529</b>	<b>85,237</b>
YoY gr. (%)	(14.2)	(3.9)	4.0	7.2
Margin (%)	37.7	36.5	34.1	33.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	79,560	76,493	79,529	85,237
<b>Equity Shares O/s (m)</b>	<b>4,225</b>	<b>4,225</b>	<b>4,225</b>	<b>4,225</b>
<b>EPS (Rs)</b>	<b>18.8</b>	<b>18.1</b>	<b>18.8</b>	<b>20.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>258,410</b>	<b>308,410</b>	<b>328,410</b>	<b>346,410</b>
Tangibles	258,410	308,410	328,410	346,410
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>110,630</b>	<b>134,016</b>	<b>160,595</b>	<b>188,786</b>
Tangibles	110,630	134,016	160,595	188,786
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>147,780</b>	<b>174,394</b>	<b>167,815</b>	<b>157,624</b>
Tangibles	147,780	174,394	167,815	157,624
Intangibles	-	-	-	-
Capital Work In Progress	24,990	2,740	12,990	23,390
Goodwill	-	-	-	-
Non-Current Investments	130	130	130	130
Net Deferred tax assets	19,250	17,224	11,027	4,385
Other Non-Current Assets	16,710	16,710	16,710	16,710
<b>Current Assets</b>				
Investments	194,880	194,880	194,880	194,880
Inventories	15,440	15,273	17,055	18,478
Trade receivables	1,960	1,942	2,169	2,350
Cash & Bank Balance	230	(5,871)	21,377	53,689
Other Current Assets	40	40	40	40
<b>Total Assets</b>	<b>424,580</b>	<b>420,632</b>	<b>447,364</b>	<b>474,846</b>
<b>Equity</b>				
Equity Share Capital	8,450	8,450	8,450	8,450
Other Equity	327,600	348,853	370,949	394,631
<b>Total Networkth</b>	<b>336,050</b>	<b>357,303</b>	<b>379,399</b>	<b>403,081</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	25,380	-	-	-
Provisions	1,450	1,450	1,450	1,450
Other non current liabilities	9,450	9,950	10,450	10,950
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	11,740	11,635	12,992	14,076
Other current liabilities	40,320	40,104	42,882	45,098
<b>Total Equity &amp; Liabilities</b>	<b>424,580</b>	<b>420,632</b>	<b>447,364</b>	<b>474,846</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	104,560	94,602	103,284	110,697
Add. Depreciation	18,830	23,386	26,578	28,191
Add. Interest	1,130	571	-	-
Less Financial Other Income	17,820	16,902	16,827	19,143
Add. Other	(17,820)	(16,902)	(16,827)	(19,143)
Op. profit before WC changes	106,700	101,658	113,035	119,745
Net Changes-WC	6,710	364	2,626	2,197
Direct tax	(25,600)	(16,082)	(17,558)	(18,819)
<b>Net cash from Op. activities</b>	<b>87,810</b>	<b>85,939</b>	<b>98,103</b>	<b>103,123</b>
Capital expenditures	(33,410)	(27,750)	(30,250)	(28,400)
Interest / Dividend Income	2,530	16,902	16,827	19,143
Others	19,960	-	-	-
<b>Net Cash from Invst. activities</b>	<b>(10,920)</b>	<b>(10,848)</b>	<b>(13,423)</b>	<b>(9,257)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	25,360	(25,380)	-	-
Dividend paid	(119,580)	(55,241)	(57,432)	(61,555)
Interest paid	(2,080)	(571)	-	-
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(96,300)</b>	<b>(81,192)</b>	<b>(57,432)</b>	<b>(61,555)</b>
<b>Net change in cash</b>	<b>(19,410)</b>	<b>(6,101)</b>	<b>27,248</b>	<b>32,312</b>
Free Cash Flow	54,400	58,189	67,853	74,723

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
<b>Net Revenue</b>	<b>54,910</b>	<b>49,870</b>	<b>45,110</b>	<b>46,720</b>
YoY gr. (%)	(12.5)	(6.1)	(5.6)	(15.7)
Raw Material Expenses	250	(60)	(140)	(1,710)
Gross Profit	54,660	49,930	45,250	48,430
Margin (%)	99.5	100.1	100.3	103.7
<b>EBITDA</b>	<b>27,890</b>	<b>24,770</b>	<b>21,170</b>	<b>22,890</b>
YoY gr. (%)	(23.0)	(8.7)	(9.1)	(19.3)
Margin (%)	50.8	49.7	46.9	49.0
Depreciation / Depletion	5,530	5,340	5,950	5,970
<b>EBIT</b>	<b>22,360</b>	<b>19,430</b>	<b>15,220</b>	<b>16,920</b>
Margin (%)	40.7	39.0	33.7	36.2
Net Interest	510	290	250	420
Other Income	5,390	4,290	5,900	4,450
<b>Profit before Tax</b>	<b>27,240</b>	<b>23,430</b>	<b>20,870</b>	<b>20,950</b>
Margin (%)	49.6	47.0	46.3	44.8
Total Tax	7,120	5,780	60	4,750
Effective tax rate (%)	26.1	24.7	0.3	22.7
<b>Profit after Tax</b>	<b>20,120</b>	<b>17,650</b>	<b>20,810</b>	<b>16,200</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>20,120</b>	<b>17,650</b>	<b>20,810</b>	<b>16,200</b>
YoY gr. (%)	(20.8)	(8.0)	14.7	(26.7)
Margin (%)	36.6	35.4	46.1	34.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>20,120</b>	<b>17,650</b>	<b>20,810</b>	<b>16,200</b>
YoY gr. (%)	(19.7)	(8.0)	14.7	(26.7)
Margin (%)	36.6	35.4	46.1	34.7
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>20,120</b>	<b>17,650</b>	<b>20,810</b>	<b>16,200</b>
Avg. Shares O/s (m)	4,225	4,225	4,225	4,225
<b>EPS (Rs)</b>	<b>4.8</b>	<b>4.2</b>	<b>4.9</b>	<b>3.8</b>

Source: Company Data, PL Research

**Key Financial Metrics**

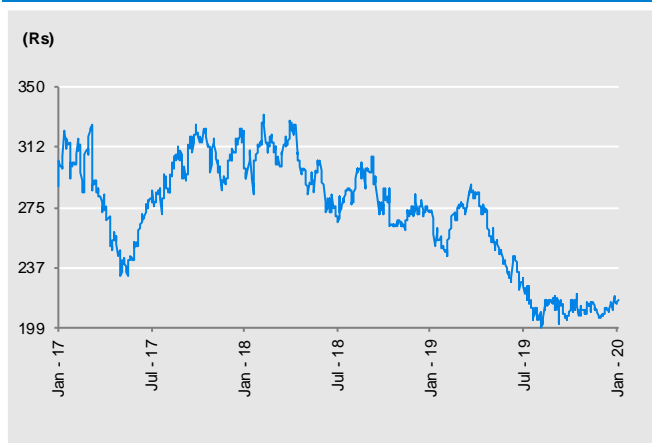
Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	18.8	18.1	18.8	20.2
CEPS	23.3	23.6	25.1	26.8
BVPS	79.5	84.6	89.8	95.4
FCF	12.9	13.8	16.1	17.7
DPS	20.0	10.9	11.3	12.1
<b>Return Ratio(%)</b>				
RoCE	24.4	21.8	23.5	23.4
ROIC	40.5	37.2	43.8	49.4
RoE	22.9	22.1	21.6	21.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.5)	(0.5)	(0.6)	(0.6)
Net Working Capital (Days)	10	10	10	10
<b>Valuation(x)</b>				
PER	11.3	11.7	11.3	10.5
P/B	2.7	2.5	2.4	2.2
P/CEPS	9.1	9.0	8.5	7.9
EV/EBITDA	6.8	7.0	6.0	5.4
EV/Sales	3.4	3.4	2.9	2.6
Dividend Yield (%)	9.4	5.1	5.3	5.7

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY19	FY20E	FY21E	FY22E
Mined Zinc metal prod-MIC tns	729,000	774,953	848,322	918,078
Mined Lead metal prod-MIC tns	208,000	210,756	245,850	266,834
Total Mines metal-MIC tns	937,000	985,709	1,094,172	1,184,913
Refined Zinc Vol. (tonnes)	694,000	746,280	816,932	884,109
Refined Lead Vol. (tonnes)	198,000	195,443	228,381	247,888
Total Refined metal-tns	892,000	941,723	1,045,314	1,131,997
Concentrate sales vol (MIC tns)	5,213	1	2	2
Silver Sales Vol. (kg)	676,000	672,118	786,087	853,261
Zinc (US\$)-LME / tonne	2,743	2,550	2,550	2,550
Lead(US\$)-LME / tonne	2,121	2,168	2,168	2,168
Silver (Rs / Kg)	38,442	37,800	37,800	37,800
Cost per tonne of Refined metal (Zn+Pb)	117,130	114,323	115,160	117,400

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	Hold	235	215
2	29-Oct-19	Hold	235	220
3	3-Oct-19	Hold	225	209
4	19-Jul-19	Hold	225	220
5	4-Jul-19	Hold	240	240
6	2-May-19	Hold	275	272
7	5-Apr-19	Hold	275	289

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	Accumulate	1,650	1,476
2	Ambuja Cement	Hold	207	203
3	Coal India	Accumulate	230	212
4	Heidelberg Cement India	Accumulate	215	184
5	Hindalco Industries	Accumulate	230	216
6	Hindustan Zinc	Hold	235	215
7	Jindal Steel & Power	BUY	205	179
8	JK Lakshmi Cement	Accumulate	376	306
9	JSW Steel	Reduce	200	272
10	NMDC	Reduce	105	129
11	Shree Cement	Reduce	18,000	21,122
12	Steel Authority of India	Reduce	32	47
13	Tata Steel	Reduce	400	484
14	The Ramco Cements	Hold	780	761
15	Ultratech Cement	BUY	4,675	4,219

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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