

July 22, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	200		195	
Sales (Rs. m)	2,11,519	2,29,630	2,05,993	2,23,483
% Chng.	2.7	2.8		
EBITDA (Rs. m)	96,559	99,200	91,682	92,117
% Chng.	5.3	7.7		
EPS (Rs.)	16.7	18.0	15.7	16.6
% Chng.	6.0	8.3		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,85,610	1,63,485	2,11,519	2,29,630
EBITDA (Rs. m)	88,470	71,585	96,559	99,200
Margin (%)	47.7	43.8	45.7	43.2
PAT (Rs. m)	68,050	48,500	70,355	75,997
EPS (Rs.)	16.1	11.5	16.7	18.0
Gr. (%)	(14.5)	(28.7)	45.1	8.0
DPS (Rs.)	16.5	10.3	15.0	16.2
Yield (%)	9.0	5.7	8.2	8.9
RoE (%)	18.4	13.0	20.4	21.6
RoCE (%)	17.0	12.4	20.3	20.2
EV/Sales (x)	3.0	3.0	1.9	1.4
EV/EBITDA (x)	6.3	6.9	4.2	3.1
PE (x)	11.3	15.9	11.0	10.2
P/BV (x)	1.9	2.3	2.2	2.2

Key Data

HZNC.BO | HZ IN

52-W High / Low	Rs.229 / Rs.116
Sensex / Nifty	37,930 / 11,162
Market Cap	Rs.772bn/ \$ 10,334m
Shares Outstanding	4,225m
3M Avg. Daily Value	Rs.414.07m

Shareholding Pattern (%)

Promoter's	64.92
Foreign	0.96
Domestic Institution	2.65
Public & Others	31.47
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.7	(13.9)	(16.9)
Relative	(6.0)	(6.2)	(16.0)

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Earnings in line, Maintain Accumulate

Quick Pointers:

- Mined-metal production run-rate higher by 16% YoY in May and June
- Cost of production (CoP) ex-Royalty fell 4% QoQ/11% YoY at US\$954/t

Hindustan Zinc (HZ) reported earnings in line with ours/consensus estimates. HZ missed its guidance on volumes and ore grade over past couple of years due to delay in commissioning of shafts and weaker than assessed ore grade. As the new shafts at both Rampura Agucha (RA) and Sindesar Khurd (SK) mines commenced hauling of ore, we expect significant improvement in quality of operations with better visibility on production and lower costs. In last five years since FY15, ore grade has fallen by ~30% to 7.5% due to fall in grade and share of RA mines. However, we do not expect negative surprise on grade front with likely range of 7.0-7.5% on the back of stabilisation of RA mines' output. Zinc prices registered strong recovery in last couple of month with ~9% rise to US\$2,170/t on the back of revival in Chinese demand and production cuts. We factor in Zinc at US\$2,050/US\$2085 in FY21e/FY22e as we expect ease in prices because of sharp run-up and cooling off in China's pent-up demand. In the backdrop of better outlook and attractive valuations, we reiterate Accumulate rating with TP of Rs200, EV/EBITDA of 5.0x FY22e.

- Higher volumes offsets weak realisations:** Refined metal sales volume fell 5% QoQ (↓3.3% YoY) at 208kt (PLe:204kt). Silver volumes fell 1.4% QoQ (↓5.8% YoY) to 146t, tad below our estimate of 150t due to delayed ramp-up of Dariba smelter. Net Revenues fell 9% QoQ at Rs39.9bn (PLe:Rs39.5bn). Metal realisations came below our estimates by 1% at USD2,006/t (down 11% QoQ/28% YoY) due to higher share of exports. Total cost/t rose 0.8% QoQ/down 9% YoY at USD1,529, above our estimate by 2% due to one-time contribution of Rs1bn (or US\$53/t) towards PM-Cares fund and smelter start-up cost (US\$12/t). EBITDA came in line with our estimates at Rs15.8bn (PLe:Rs16.3bn), down 20% QoQ/36% YoY. Driven by lower tax rate at 18% (PLe:23%), PAT rose 1.5% QoQ/down 23% YoY at 13.6bn (PLe:12.5bn).
- Key highlights of con-call:** **1)** Chinese demand (constitutes 40% of global demand) revived back to pre-covid-19 levels on the back of uptick in Infra and Real Estate demand while demand in Rest of World (RoW) demand remained soft **2)** Global zinc smelters would cut production in H2CY20e due to subdued demand in RoW and 43% QoQ fall in Treatment charges (TC) **3)** Guided mined metal production/Silver volumes for FY21e at 925-950kt/650t against 916kt/610t in FY20 **4)** Capex guidance for FY21e at ~US\$300mn including growth capex of US\$100-140mn **5)** Ore grade remained flat YoY at 7.3% while slipped by 60bps QoQ as per mine plan and mix shift **6)** Guided ore grade above 7.5% in FY21e **7)** Share of exports rose to 70% against normal mix of 25% **8)** Mix would normalise to earlier levels by Q2FY20e onwards **9)** Realisation in exports lower by US\$100-120/t over domestic volumes **10)** Guided CoP below US\$1000/t due to lower coal costs and rationalisation of fixed costs.

Exhibit 1: Q1FY21 Result Overview (Rs mn)

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Sales	39,890	49,870	(20.0)	43,910	1,63,839	1,85,610	(11.7)
Raw material consumed	1,670	(60)	-	(1,000)	0.0	(2,910)	(100.0)
<i>% of Net Sales</i>	<i>4.2</i>	<i>-0.1</i>		<i>-2.3</i>	<i>0.0</i>	<i>-1.6</i>	
Power and fuel	3,880	4,450	(12.8)	4,420	13,237	17,040	(22.3)
<i>% of Net Sales</i>	<i>9.7</i>	<i>8.9</i>		<i>10.1</i>	<i>8.1</i>	<i>9.2</i>	
Mining Royalty Rates	4,630	5,940	(22.1)	6,070	20,857	23,530	(11.4)
<i>% of Net Sales</i>	<i>11.6</i>	<i>11.9</i>		<i>13.8</i>	<i>12.7</i>	<i>12.7</i>	
Employee Cost	2,350	1,820	29.1	1,140	7,604	6,890	10.4
<i>% of Net Sales</i>	<i>5.9</i>	<i>3.6</i>		<i>2.6</i>	<i>4.6</i>	<i>3.7</i>	
Selling, general and administrative	11,600	12,950	(10.4)	13,640	49,797	52,590	(5.3)
<i>% of Net Sales</i>	<i>29.1</i>	<i>26.0</i>		<i>31.1</i>	<i>30.4</i>	<i>28.3</i>	
Total Expenditure	24,130	25,100	(3.9)	24,270	91,496	97,140	(5.8)
EBITDA	15,760	24,770	(36.4)	19,640	72,343	88,470	(18.2)
<i>Margin (%)</i>	<i>39.5</i>	<i>49.7</i>		<i>44.7</i>	<i>44.2</i>	<i>47.7</i>	
Depreciation	5,440	5,340	1.9	5,530	24,977	22,790	9.6
Other income	6,840	4,290	59.4	4,700	16,992	19,340	(12.1)
EBIT	17,160	23,720	(27.7)	18,810	64,358	85,020	(24.3)
Interest	520	290	79.3	160	1,300	1,120	16.1
PBT	16,640	23,430	(29.0)	18,650	63,058	83,900	(24.8)
Extraordinary income/(expense)	-	-		-	-	-	
PBT (After EO)	16,640	23,430	(29.0)	18,650	63,058	83,900	(24.8)
Tax	3,050	5,780	(47.2)	5,260	13,936	15,850	(12.1)
<i>% PBT</i>	<i>18.3</i>	<i>24.7</i>		<i>28.2</i>	<i>22.1</i>	<i>18.9</i>	
Reported PAT	13,590	17,650	(23.0)	13,390	49,122	68,050	(27.8)
Adjusted PAT	13,590	17,650	(23.0)	13,390	49,122	64,400	(23.7)

Source: Company, PL

Exhibit 2: Key Operating Metrics

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
LME Zinc average (US\$/t)	1,961	2,763	(29.0)	2,128	2,000	2,407	(16.9)
LME Lead average (US\$/t)	1,673	1,885	(11.2)	1,847	1,700	1,951	(12.9)
Production volume							
- Mined metal (Zinc+Lead)-tonnes	2,02,000	2,13,000	(5.2)	2,49,000	8,61,503	9,16,000	(5.9)
- Refined metal (Zinc+Lead)-tonnes	2,01,600	2,19,191	(8.0)	2,21,014	8,29,080	8,69,656	(4.7)
- Silver (kgs)	1,17,497	1,58,969	(26.1)	1,68,000	5,97,992	6,09,969	(2.0)
Sales volume							
- Refined Zinc	1,63,000	1,67,500	(2.7)	1,73,000	6,53,200	6,80,400	(4.0)
- Refined Lead	45,000	47,500	(5.3)	48,000	1,69,865	1,81,400	(6.4)
- Silver (kgs)	1,46,000	1,55,000	(5.8)	1,44,000	5,66,510	5,86,700	(3.4)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,85,610	1,63,485	2,11,519	2,29,630
YoY gr. (%)	(12.1)	(11.9)	29.4	8.6
Cost of Goods Sold	-	-	-	-
Gross Profit	1,85,610	1,63,485	2,11,519	2,29,630
Margin (%)	100.0	100.0	100.0	100.0
Employee Cost	6,890	8,097	8,664	9,270
Other Expenses	-	-	-	-
EBITDA	88,470	71,585	96,559	99,200
YoY gr. (%)	(17.1)	(19.1)	34.9	2.7
Margin (%)	47.7	43.8	45.7	43.2
Depreciation and Amortization	22,790	24,977	26,662	28,348
EBIT	65,680	46,608	69,896	70,852
Margin (%)	35.4	28.5	33.0	30.9
Net Interest	1,120	1,300	1,300	1,300
Other Income	19,340	16,951	21,718	28,005
Profit Before Tax	83,900	62,259	90,315	97,557
Margin (%)	45.2	38.1	42.7	42.5
Total Tax	15,850	13,759	19,960	21,560
Effective tax rate (%)	18.9	22.1	22.1	22.1
Profit after tax	68,050	48,500	70,355	75,997
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	68,050	48,500	70,355	75,997
YoY gr. (%)	(14.5)	(28.7)	45.1	8.0
Margin (%)	36.7	29.7	33.3	33.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	68,050	48,500	70,355	75,997
YoY gr. (%)	(14.5)	(28.7)	45.1	8.0
Margin (%)	36.7	29.7	33.3	33.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	68,050	48,500	70,355	75,997
Equity Shares O/s (m)	4,225	4,225	4,225	4,225
EPS (Rs)	16.1	11.5	16.7	18.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	2,98,110	3,08,410	3,28,410	3,48,410
Tangibles	2,98,110	3,08,410	3,28,410	3,48,410
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,33,420	1,58,393	1,85,055	2,13,403
Tangibles	1,33,420	1,58,393	1,85,055	2,13,403
Intangibles	-	-	-	-
Net fixed assets	1,64,690	1,50,017	1,43,355	1,35,007
Tangibles	1,64,690	1,50,017	1,43,355	1,35,007
Intangibles	-	-	-	-
Capital Work In Progress	24,890	34,367	35,117	27,117
Goodwill	-	-	-	-
Non-Current Investments	130	130	130	130
Net Deferred tax assets	18,220	15,564	11,048	6,170
Other Non-Current Assets	13,690	16,710	16,710	16,710
Current Assets				
Investments	2,03,290	1,94,880	1,94,880	1,94,880
Inventories	18,350	11,883	15,436	16,776
Trade receivables	4,010	1,760	2,287	2,485
Cash & Bank Balance	19,180	81,632	1,67,136	2,66,450
Other Current Assets	60	40	40	40
Total Assets	4,69,750	5,10,153	5,89,309	6,68,935
Equity				
Equity Share Capital	8,450	8,450	8,450	8,450
Other Equity	3,94,650	3,32,182	3,39,218	3,46,817
Total Networkth	4,03,100	3,40,632	3,47,668	3,55,267
Non-Current Liabilities				
Long Term borrowings	6,110	-	-	-
Provisions	1,620	1,450	1,450	1,450
Other non current liabilities	10,680	10,450	10,950	11,450
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	14,880	9,242	12,006	13,048
Other current liabilities	33,140	34,821	40,358	42,446
Total Equity & Liabilities	4,69,750	3,96,785	4,12,622	4,23,851

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	83,900	62,259	90,315	97,557
Add. Depreciation	22,790	24,977	26,662	28,348
Add. Interest	1,120	1,300	1,300	1,300
Less Financial Other Income	19,340	16,951	21,718	28,005
Add. Other	(19,080)	(16,951)	(21,718)	(28,005)
Op. profit before WC changes	88,730	71,585	96,559	99,200
Net Changes-WC	(11,170)	1,069	4,721	2,092
Direct tax	(11,350)	(10,646)	(15,444)	(16,682)
Net cash from Op. activities	66,210	62,007	85,836	84,609
Capital expenditures	(36,370)	(23,000)	(20,750)	(12,000)
Interest / Dividend Income	5,230	16,951	21,718	28,005
Others	4,660	-	-	-
Net Cash from Inv. activities	(26,480)	(6,049)	968	16,005
Issue of share cap. / premium	-	-	-	-
Debt changes	(19,280)	-	-	-
Dividend paid	-	-	-	-
Interest paid	(1,700)	(1,300)	(1,300)	(1,300)
Others	-	-	-	-
Net cash from Fin. activities	(20,980)	(1,300)	(1,300)	(1,300)
Net change in cash	18,750	54,658	85,504	99,314
Free Cash Flow	29,840	39,007	65,086	72,609

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	45,110	46,720	43,910	39,890
YoY gr. (%)	(5.6)	(15.7)	(20.0)	(20.0)
Raw Material Expenses	(140)	(1,710)	(1,000)	1,670
Gross Profit	45,250	48,430	44,910	38,220
Margin (%)	100.3	103.7	102.3	95.8
EBITDA	21,170	22,890	19,640	15,760
YoY gr. (%)	(9.1)	(19.3)	(29.6)	(36.4)
Margin (%)	46.9	49.0	44.7	39.5
Depreciation / Depletion	5,950	5,970	5,530	5,440
EBIT	15,220	16,920	14,110	10,320
Margin (%)	33.7	36.2	32.1	25.9
Net Interest	250	420	160	520
Other Income	5,900	4,450	4,700	6,840
Profit before Tax	20,870	20,950	18,650	16,640
Margin (%)	46.3	44.8	42.5	41.7
Total Tax	60	4,750	5,260	3,050
Effective tax rate (%)	0.3	22.7	28.2	18.3
Profit after Tax	20,810	16,200	13,390	13,590
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	20,810	16,200	13,390	13,590
YoY gr. (%)	14.7	(26.7)	(33.4)	(23.0)
Margin (%)	46.1	34.7	30.5	34.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	20,810	16,200	13,390	13,590
YoY gr. (%)	14.7	(26.7)	(33.4)	(23.0)
Margin (%)	46.1	34.7	30.5	34.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	20,810	16,200	13,390	13,590
Avg. Shares O/s (m)	4,225	4,225	4,225	4,225
EPS (Rs)	4.9	3.8	3.2	3.2

Source: Company Data, PL Research

Key Financial Metrics

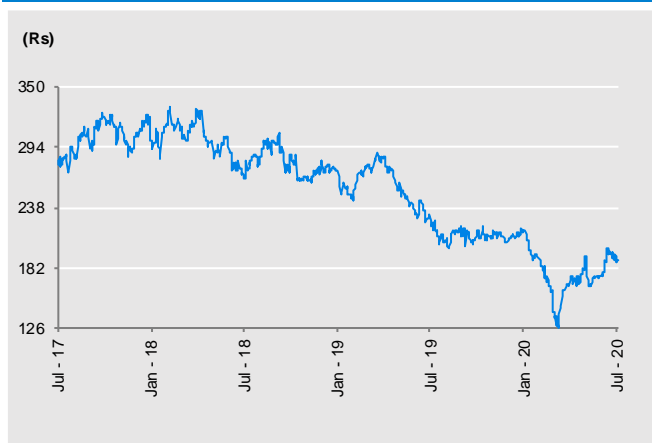
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	16.1	11.5	16.7	18.0
CEPS	21.5	17.4	23.0	24.7
BVPS	95.4	80.6	82.3	84.1
FCF	7.1	9.2	15.4	17.2
DPS	16.5	10.3	15.0	16.2
Return Ratio(%)				
RoCE	17.0	12.4	20.3	20.2
ROIC	32.7	36.9	(304.8)	(50.2)
RoE	18.4	13.0	20.4	21.6
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.8)	(1.0)	(1.3)
Net Working Capital (Days)	15	10	10	10
Valuation(x)				
PER	11.3	15.9	11.0	10.2
P/B	1.9	2.3	2.2	2.2
P/CEPS	8.5	10.5	8.0	7.4
EV/EBITDA	6.3	6.9	4.2	3.1
EV/Sales	3.0	3.0	1.9	1.4
Dividend Yield (%)	9.0	5.7	8.2	8.9

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Mined Zinc metal prod-MIC tns	7,09,664	6,78,298	8,43,254	9,50,541
Mined Lead metal prod-MIC tns	1,91,356	1,81,565	2,18,751	2,48,862
Total Mines metal-MIC tns	9,16,000	8,59,862	10,62,005	11,99,403
Refined Zinc Vol. (tonnes)	6,88,286	6,53,200	8,12,056	9,15,372
Refined Lead Vol. (tonnes)	1,81,370	1,68,300	2,02,585	2,30,532
Total Refined metal-tns	8,69,656	8,21,500	10,14,642	11,45,904
Concentrate sales vol (MIC tns)	3	1	1	2
Silver Sales Vol. (kg)	5,86,700	5,61,207	6,75,190	7,68,450
Zinc (US\$)-LME / tonne	2,407	2,000	2,085	2,050
Lead(US\$)-LME / tonne	1,951	1,700	1,772	1,743
Silver (Rs / Kg)	42,395	44,840	46,200	45,000
Cost per tonne of Refined metal (Zn+Pb)	1,12,437	1,11,870	1,13,302	1,13,823

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jul-20	Accumulate	195	193
2	22-May-20	Accumulate	195	169
3	20-Apr-20	Hold	200	175
4	21-Jan-20	Hold	235	212
5	03-Jan-20	Hold	235	215
6	29-Oct-19	Hold	235	220
7	03-Oct-19	Hold	225	209

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,505	1,335
2	Ambuja Cement	BUY	210	196
3	Coal India	Hold	155	130
4	Heidelberg Cement India	Accumulate	185	180
5	Hindalco Industries	BUY	180	165
6	Hindustan Zinc	Accumulate	195	193
7	Jindal Steel & Power	BUY	180	164
8	JK Lakshmi Cement	BUY	350	281
9	JSW Steel	Reduce	140	197
10	NMDC	Accumulate	87	86
11	Shree Cement	Hold	19,000	22,452
12	Steel Authority of India	Reduce	25	37
13	Tata Steel	Reduce	250	345
14	The Ramco Cements	Hold	600	646
15	Ultratech Cement	BUY	4,300	3,787

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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