

Maintains volume guidance...

Hindustan Zinc reported a mixed performance for Q2FY21. The topline came in line with our estimate while EBITDA and PAT were lower than our estimate. For the quarter, zinc sales volumes came in at ~181000 tonnes (up 8% YoY, 11% QoQ, marginally lower than our estimate: 185419 tonnes), lead sales volume came in at ~57000 tonnes (up 30% YoY, 27% QoQ, lower than our estimate: 60125 tonnes) while silver sales volume came in at ~203000 kg (up 50% YoY, 39% QoQ, higher than our estimate: 195000 kg). Topline came in at ₹ 5660 crore (up 25% YoY, 42% QoQ), in line with our estimate of ₹ 5668 crore. EBITDA came in at ₹ 2952 crore (up 39% YoY, 87% QoQ), lower than our estimate of ₹ 3031 crore. EBITDA margin came in at 52.2%, marginally lower than our estimate of 53.5%. Ensuing PAT was at ₹ 1940 crore (up 43% QoQ but down 7% YoY). **HZL has announced an interim dividend of ₹ 21.3/equity share with a record date of October 28, 2020.**

Healthy reserve base provide earnings visibility over long term

HZL has a huge reserve base, which provides strong earnings visibility. During the year, total ore reserves increased from 92.6 million tonnes (MT) at the end of FY19 to 114.7 MT at the end of FY20 while mineral resources totalled 288.3 MT. Total R&R was unchanged at 403 MT from a year ago as ore consumed during the year was replenished. Total contained metal in ore reserves was 7.95 MT of zinc, 2.07 MT of lead and 256.2 million ounces of silver. The mineral resources contain 15.87 MT of zinc, 5.93 MT of lead and 641.8 million ounces of silver. At current mining rates, the R&R underpins metal production for more than 25 years.

Maintains volume guidance...

HZL has maintained its volume guidance. Earlier at the end of Q1FY21, the company had given mined metal and finished metal production guidance of 925-950 KT each and saleable silver production of ~650 tonnes in FY21. It also guided that zinc's cost of production will remain below US\$1000/tonne while project capex is expected to be in the range of US\$100-140 million for the year.

Valuation & Outlook

There was healthy traction in both zinc and Lead prices on the LME. During Q2FY21, average zinc prices on the LME were at US\$2335/tonne (up 19% QoQ) while lead prices for Q2FY21 were at US\$1873/tonne (up 12% QoQ). The uptick in both zinc and lead prices augurs well for the company. We model EBITDA margin of 50.7% in FY21E and 53.8% in FY22E. We value the stock at 6x FY22E EV/EBITDA and arrive at a target price of ₹ 230, with a **HOLD** recommendation on the stock.



Particulars	
	₹ Crore
Market Capitalization	94,218
Total Debt (FY20)	611
Cash and Investments (FY20)	22,247
EV	72,581
52 week H/L (₹)	258 / 122
Equity capital	845.1
Face value (₹)	₹ 2



Key Highlights

- Zinc cost of production (CoP) before royalty at US\$919 (₹ 68228) per tonne for the quarter, down 12% YoY, 10% QoQ. H1FY21 CoP at US\$965, down 9% YoY
- Maintain **HOLD** recommendation with revised target price of ₹ 230

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Key Financial Summary

₹ crore	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Operating income	17,273	22,084	21,118	18,561	20,399	23,734
EBITDA	9,738	12,272	10,670	8,847	10,338	12,758
PAT	8,316	9,276	7,956	6,805	7,214	8,904
EPS (₹)	19.7	22.0	18.8	16.1	17.1	21.1
P/E (x)	11.3	10.2	11.8	13.8	13.1	10.6
EV/EBITDA (x)	7.2	5.9	7.2	8.2	7.8	5.8
RoE (%)	27.0	25.8	23.7	16.9	23.5	24.1
RoCE (%)	26.9	34.0	29.2	20.8	25.5	27.4

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Operating Income	5660	5668	4511	25.5	3989	41.9	Topline came in line with our estimates
Other Income	390	350	590	-33.9	684	-43.0	Other income came in higher than our estimates
Total Operating expense	2708	2637	2394	13.1	2413	12.2	
EBITDA	2952	3031	2117	39.4	1576	87.3	EBITDA came in lower than our estimates
EBITDA Margin (%)	52.2	53.5	46.9	523 bps	39.5	1265 bps	EBITDA margin came in marginally below our estimates
Depreciation	652	587	595	9.6	544	19.9	
Interest	68	25	25	0.0	52	30.8	
Exceptional item	-	0	0	-	-	-	
PBT	2622	2769	2087	25.6	1664	57.6	
Tax Outgo	682	624	6	-	305	-	
PAT	1940	2145	2081	-6.8	1359	42.8	PAT came in lower than our estimates
Key Metrics							
Zinc sales (tonne)	181,000	185419	168000	7.7	163,000	11.0	Zinc sales volume came in marginally lower than our estimate
Lead sales (tonne)	57,000	60125	44000	29.5	45,000	26.7	Lead sales volume was lower than our estimates
Silver sales (kg)	203,000	195000	135000	50.4	146,000	39.0	Silver sales volume came in higher than our estimates

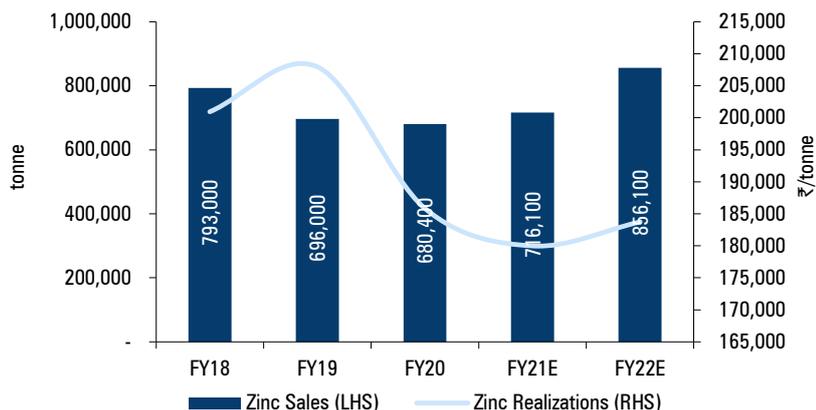
Source: Company, ICICI Direct Research

Conference Call Highlights

- Zinc's cost of production (CoP) before royalty was at US\$919 (₹ 68228) per tonne for the quarter, down 12% YoY, 10% QoQ. H1FY21 CoP was at US\$965, down 9% YoY. The CoP benefitted from a number of cost reduction initiatives yielding results. It was also supported by a decline in coal and met coke prices.
- The company signed an MoU with the Gujarat government for 300 KTPA zinc smelter. With respect to the potential IRRs for the new project, HZL indicated it has higher hurdle rates and the Gujarat smelter will be pursued if the project IRR crosses the same.
- Q4FY21 is likely to have an exit production rate of 1.2 MTPA
- The management has indicated that it will stick to its silver guidance, despite higher volume in the first two quarters. Mined metal from SK mines was of better grades than in the previous quarter.
- Employee cost declined both QoQ as well YoY on account of cost optimisation initiatives. Going forward, on an annual basis, employee cost is expected to be below ₹ 700 crore
- Environmental clearance (EC) recommended by expert appraisal committee for Zawar mine expansion from 4 to 4.8 million tonnes per annum (MTPA)
- Both the back-fill plants at Zawar are being commissioned with operations expected to start in October 2020
- Due to ongoing Covid-19 restrictions including visa restriction of Chinese nationals, commissioning of Fumer plant at Chanderiya is delayed and efforts are ongoing for an early commissioning
- During the quarter, HZL raised ₹ 5020 crore through issuance of non-convertible debentures and a term loan. In addition, short-term commercial paper of ₹ 4778 crore is outstanding at the end of September 2020. Hence, currently, HZL has gross debt of ~₹ 9798 crore. Consequently, gross cash & cash equivalents at the end of September 2020 was ₹ 27631 crore while net cash & cash equivalents at the end of September 2020 was at ₹ 17833 crore. Post the dividend payment of ₹ 9000 crore the company will have a net cash balance of ₹ 8833 crore. While the company plans to leverage up its balance sheet, going forward, it has indicated that it would ensure a healthy capital structure

Financial story in charts

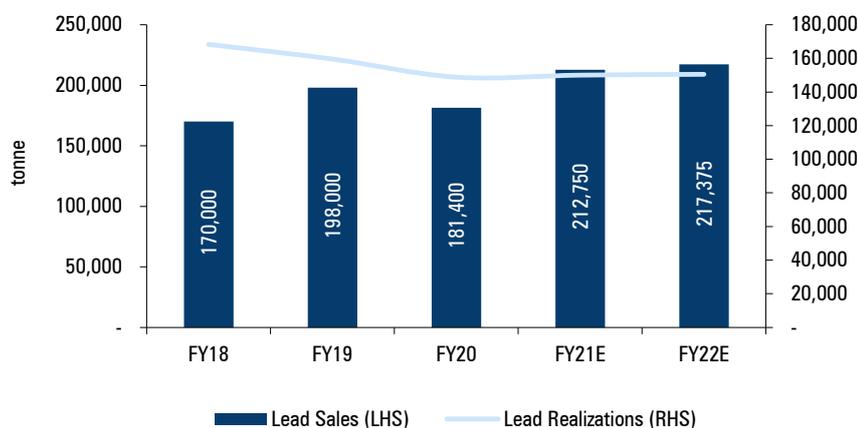
Exhibit 2: Zinc sales volume and realisation trend



Zinc sales volume expected to grow at a CAGR of ~12% during FY20-22E

Source: Company, ICICI Direct Research

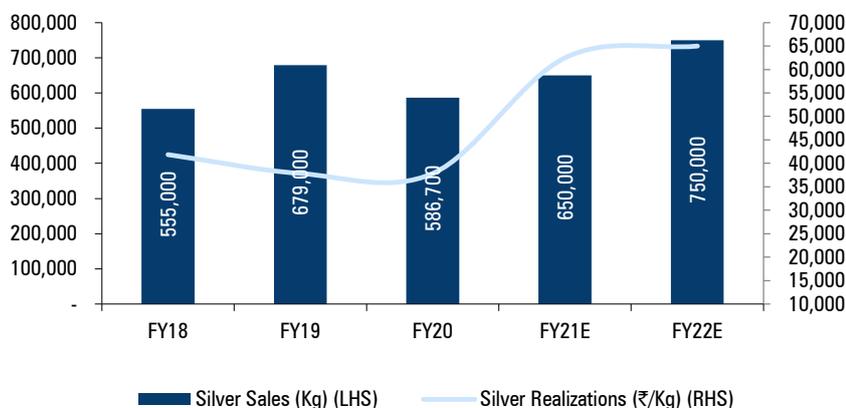
Exhibit 3: Lead sales volume and realisation trend...



Lead sales volumes expected to grow at a CAGR of ~9% during FY20-22E

Source: Company, ICICI Direct Research

Exhibit 4: Silver sales volume and realisation



Silver sales volumes expected to grow at a CAGR of ~13% during FY20-22E

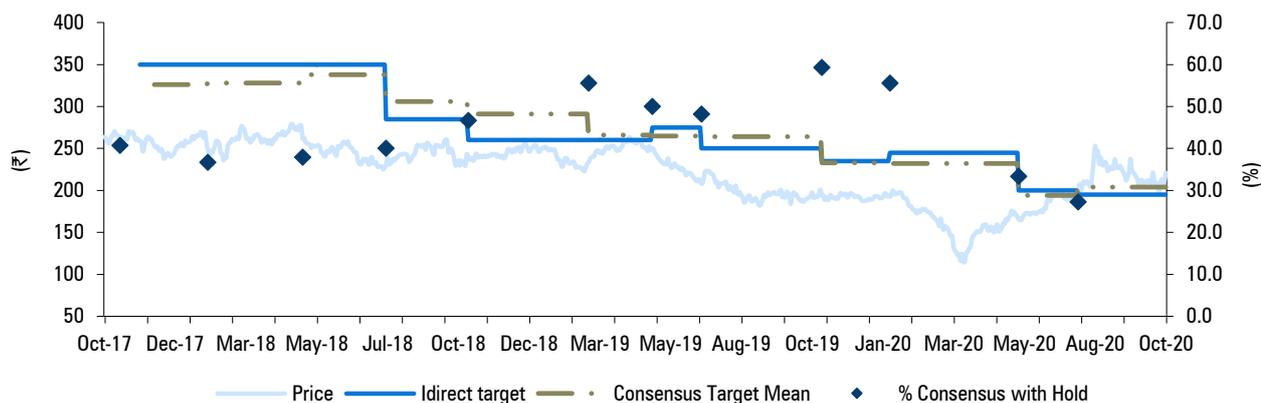
Source: Company, ICICI Direct Research

Exhibit 5: Valuation Matrix

Years	Total Op Income (₹ cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITD (x)	RoN (%)	RoCE (%)
FY18	22084	27.9	22.0	11.5	10.2	5.9	25.8	34.0
FY19	21118	-4.4	18.8	-14.2	11.8	7.2	23.7	29.2
FY20	18561	-12.1	16.1	-14.5	13.8	8.2	16.9	20.8
FY21E	20399	9.9	17.1	6.0	13.1	7.8	23.5	25.5
FY22E	23734	16.4	21.1	23.4	10.6	5.8	24.1	27.4

Source: Company, ICICI Direct Research

Exhibit 6: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 7: Top 10 Shareholders

Rank	Name	Latest Filing	% O/S	Position (m)	Change (m)
1	VEDANTA LTD	30-06-2020	64.9	2743.2	0.0
2	GOVERNMENT OF INDIA	30-06-2020	29.6	1250.0	0.0
3	LIFE INSURANCE CORP	30-06-2020	2.0	83.3	3.0
4	BODIES CORPORATE	30-06-2020	0.5	21.0	1.6
5	JANUS HENDERSON GROU	30-06-2020	0.3	12.1	0.1
6	VANGUARD GROUP	30-09-2020	0.2	7.7	-0.3
7	UTI ASSET MANAGEMENT	30-09-2020	0.1	6.1	-0.4
8	ICICI PRUDENTIAL ASS	31-08-2020	0.1	2.6	0.0
9	DSP BLACKROCK INVEST	30-09-2020	0.0	1.9	0.0
10	STATE STREET CORP	19-10-2020	0.0	1.2	0.0

Source: Reuters, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20
Promoter	64.9	64.9	64.9
Others	35.1	35.1	35.1
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	21,118	18,561	20,399	23,734
Growth (%)	-4	-12	10	16
EBITDA	10,670	8,847	10,338	12,758
Growth (%)	-13	-17	17	23
Depreciation	1,883	2,279	2,222	2,298
Interest	113	112	370	550
Other Income	1,782	1,934	2,034	2,150
PBT	10,456	8,390	9,780	12,060
Exceptional Item	0	0	0	0
Total Tax	2,500	1,585	2,565	3,156
PAT	7,956	6,805	7,214	8,904
Growth (%)	-14	-14	6	23
EPS (₹)	18.8	16.1	17.1	21.1

Source: Company, ICICI Direct Research

Exhibit10: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	7,956	6,805	7,214	8,904
Add: Depreciation	1,883	2,279	2,222	2,298
(Inc)/dec in Current Assets	309	145	6	-753
Inc/(dec) in CL and Provisions	310	-261	771	771
Others	0	0	0	0
CF from operating activities	10,458	8,968	10,214	11,219
(Inc)/dec in Investments	734	-841	5,000	-3,000
(Inc)/dec in Fixed Assets	-4,393	-4,203	-1,000	-2,000
Others	0	0	0	0
CF from investing activities	-3,659	-5,044	4,000	-5,000
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	2,538	-1,927	8,483	0
Dividend paid & dividend tax	-10,188	-8,156	-8,999	-2,671
Inc/(dec) in Share Cap	-95	8,056	-7,768	0
Others	-995	0	0	0
CF from financing activities	-8,740	-2,027	-8,284	-2,671
Net Cash flow	-1,941	1,897	5,930	3,548
Opening Cash	1,964	23	1,918	7,847
Closing Cash	23	1,918	7,847	11,395

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	845	845	845	845
Reserve and Surplus	32,760	39,465	29,912	36,145
Total Shareholders funds	33,605	40,310	30,757	36,990
Total Debt	2,538	611	9,094	9,094
Deferred Tax Liability	0	0	0	0
Minority Interest / Others	0	0	0	0
Total Liabilities	36,143	40,921	39,851	46,084
Assets				
Gross Block	21,677	25,647	26,149	30,638
Less: Acc Depreciation	6,899	9,178	11,401	13,698
Net Block	14,778	16,469	14,749	16,940
Capital WIP	2,254	2,489	2,989	500
Total Fixed Assets	17,032	18,958	17,738	17,440
Investments	19,488	20,329	15,329	18,329
Inventory	1,544	1,835	2,037	2,468
Trade receivables	196	401	443	515
Other Current Assets	4,175	3,534	3,284	3,534
Cash	23	1,918	7,847	11,395
Total Current Assets	5,938	7,689	13,610	17,912
Trade payables	1,174	1,488	1,660	1,931
Other current liabilities	5,141	4,566	5,166	5,666
Provisions	0	0	0	0
Current Liabilities & Prov	6,315	6,054	6,826	7,597
Net Current Assets	-377	1,634	6,785	10,315
Application of Funds	36,143	40,921	39,851	46,084

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	18.8	16.1	17.1	21.1
Cash EPS	23.3	21.5	22.3	26.5
BV	79.5	95.4	72.8	87.5
DPS	20.0	16.5	21.3	6.3
Cash Per Share (Incl Invst)	46.2	52.7	54.8	70.3
Operating Ratios (%)				
EBITDA Margin	50.5	47.7	50.7	53.8
PBT / Total Op. income	49.5	45.2	47.9	50.8
PAT Margin	37.7	36.7	35.4	37.5
Inventory days	27	33	35	35
Debtor days	3	8	8	8
Creditor days	20	29	30	30
Return Ratios (%)				
RoE	23.7	16.9	23.5	24.1
RoCE	29.2	20.8	25.5	27.4
RoIC	61.1	40.6	59.3	66.0
Valuation Ratios (x)				
P/E	11.8	13.8	13.1	10.6
EV / EBITDA	7.2	8.2	7.8	5.8
EV / Net Sales	3.7	3.9	3.9	3.1
Market Cap / Sales	4.5	5.1	4.6	4.0
Price to Book Value	2.8	2.3	3.1	2.5
Solvency Ratios				
Debt/EBITDA	0.2	0.1	0.9	0.7
Debt / Equity	0.1	0.0	0.3	0.2
Current Ratio	0.9	1.0	0.8	0.9
Quick Ratio	0.7	0.6	0.5	0.5

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Metals and Mining)

	CMP		TP Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Coal India	116	150	Hold	72037	27.1	22.2	22.9	4.9	6.0	5.8	2.7	4.3	4.4	55.5	40.2	40.1	51.9	39.0	36.9
Hindalco	187	225	Buy	41939	18.2	16.4	29.2	10.6	11.7	6.6	5.6	7.6	5.5	7.8	6.0	8.4	6.9	6.0	9.7
Hind Zinc	223	230	Hold	94218	16.1	17.1	21.1	13.8	13.1	10.6	8.2	7.8	5.8	20.8	25.5	27.4	16.9	23.5	24.1
JSW Steel	323	210	Hold	78172	19.5	3.3	22.2	10.5	61.3	9.2	8.9	11.7	6.5	7.2	4.5	10.6	12.7	2.1	12.5
NMDC	86	100	Hold	26195	11.8	11.6	9.0	8.3	8.4	10.8	4.9	5.4	5.9	20.3	14.3	9.9	13.1	11.3	8.3
Ratnamani	1282	1320	Buy	5252	65.8	49.5	66.0	17.1	22.7	17.0	12.5	16.0	11.4	22.2	14.8	19.8	18.0	12.3	14.4
Graphite Ind.	189	200	Hold	3689	2.0	1.0	21.0	80.8	231.3	8.7	NA	NA	3.2	-2.6	-5.4	6.0	1.0	0.3	8.7
Tata Steel	406	450	Hold	46569	41.4	-20.3	56.7	10.1	NA	7.4	9.1	12.6	5.7	5.0	2.0	8.9	6.4	-3.2	8.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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