

October 21, 2020

## Q2FY21 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		ACCUMULATE	
Target Price	235		233	
Sales (Rs. m)	2,31,064	2,56,570	2,31,064	2,56,570
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,16,729	1,25,155	1,14,739	1,23,025
% Chng.	1.7	1.7	-	-
EPS (Rs.)	20.5	22.2	21.4	24.2
% Chng.	(4.1)	(8.3)	-	-

### Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,85,610	2,11,531	2,31,064	2,56,570
EBITDA (Rs. m)	88,470	1,04,661	1,16,729	1,25,155
Margin (%)	47.7	49.5	50.5	48.8
PAT (Rs. m)	68,050	78,236	86,720	93,703
EPS (Rs.)	16.1	18.5	20.5	22.2
Gr. (%)	(14.5)	15.0	10.8	8.1
DPS (Rs.)	16.5	21.3	18.5	20.0
Yield (%)	7.4	9.6	8.3	9.0
RoE (%)	18.4	19.7	21.9	23.2
RoCE (%)	17.0	19.8	22.4	23.6
EV/Sales (x)	3.9	3.4	3.1	2.6
EV/EBITDA (x)	8.2	6.9	6.1	5.4
PE (x)	13.8	12.0	10.9	10.0
P/BV (x)	2.3	2.4	2.4	2.3

### Key Data

HZNC.BO | HZ IN

52-W High / Low	Rs.259 / Rs.116
Sensex / Nifty	40,544 / 11,897
Market Cap	Rs.942bn / \$ 12,816m
Shares Outstanding	4,225m
3M Avg. Daily Value	Rs.848.98m

### Shareholding Pattern (%)

Promoter's	64.92
Foreign	1.04
Domestic Institution	2.58
Public & Others	31.46
Promoter Pledge (Rs bn)	138.26

### Stock Performance (%)

	1M	6M	12M
Absolute	4.4	27.9	3.0
Relative	-	(0.1)	(0.2)

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## Losses shine on valuations; Downgrade to Hold

### Quick Pointers:

- Signed MoU with Gujarat Govt to setup 300kt greenfield zinc smelter at Doswada (Surat); currently in process of feasibility study
- Announced interim dividend of Rs21.3/share
- Cost of production (CoP) to remain below US\$1000/t

**Hindustan Zinc (HZ) reported earnings 5% below our estimates due to lower volumes. However, earnings beat consensus estimates by 4%. 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 improvement in quality of operations with better visibility on production and costs. In last five years, ore grade has fallen by ~30% to 7.5% due to fall in grade and share of RA mines. However, we believe that ore grade has bottomed out at current levels. Due to run-up in stock price and unattractive valuations, we downgrade the stock to Hold with TP of Rs235 based on EV/EBITDA of 5x FY22e.**

- Lower volumes and weak zinc realisations led the miss:** Refined metal sales volume rose 14% QoQ (+12% YoY) at 238kt (PLe:253kt). Silver volumes rose 39% QoQ (+51% YoY) to 203t, below our estimate of 210t. Metal realisations came below our estimates by 1% at USD2,368/t (+18% QoQ/↓5% YoY). Hence, revenues fell short of our expectation by 6% at Rs56.6bn (PLe:Rs60.0bn), up 42% QoQ/25% YoY. Total cost/t increased 0.3% QoQ/down 4.6% YoY at USD1,533, in line with our estimates. Impacted by miss on revenue, EBITDA missed our estimates by 5% at Rs29.5bn (PLe:Rs31.2bn), up 87% QoQ/39% YoY. Impacted by 10% YoY increase in depreciation, 34% fall in other income and higher tax rate at 26% (PLe:22%/18% in Q1FY21), growth in PAT was restricted to 43% QoQ/13% YoY at Rs19.4bn (PLe:Rs24.3bn).
- Key highlights of con-call: 1)** Global mine supply continue to face challenges due to suspension of operations and delay in commissioning of new projects **2)** Global zinc concentrate demand is expected to contract 5-6% YoY in CY20; however, sharp recovery in China would help ease the pressure **3)** Reiterated mined metal and finished metal production/Silver volumes for FY21e at 925-950kt/650t (439kt/320t in H1FY21) **4)** Will exit mined metal production at rated capacity of 1.2mtpa by end of Q4FY21e **5)** Maintained capex guidance for FY21e at ~US\$300mn including growth capex of US\$100-140mn **6)** Despite higher input prices, management maintained guidance of CoP<US\$1000/t for FY21e against US\$919/US\$965 in Q2FY21/H1FY21 **7)** Raised Rs50.2bn through NCDs and term loan in the quarter with total borrowing increased to Rs98bn at Q2FY21 end **8)** Net cash & cash equivalents increased by 15% QoQ at Rs17.8bn

**Exhibit 1: Q2FY21 Result Overview (Rs mn)**

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
<b>Net Sales</b>	<b>56,600</b>	<b>45,110</b>	<b>25.5</b>	<b>39,890</b>	<b>96,490</b>	<b>94,980</b>	<b>1.6</b>
Raw material consumed	1,420	(140)	-	1,670	3,090	(200)	(1,645.0)
<i>% of Net Sales</i>	<i>2.5</i>	<i>-0.3</i>		<i>4.2</i>	<i>3.2</i>	<i>-0.2</i>	
Power and fuel	4,350	4,130	5.3	3,880	8,230	8,580	(4.1)
<i>% of Net Sales</i>	<i>7.7</i>	<i>9.2</i>		<i>9.7</i>	<i>8.5</i>	<i>9.0</i>	
Mining Royalty Rates	6,730	5,390	24.9	4,630	11,360	11,330	0.3
<i>% of Net Sales</i>	<i>11.9</i>	<i>11.9</i>		<i>11.6</i>	<i>11.8</i>	<i>11.9</i>	
Employee Cost	1,660	1,920	(13.5)	2,350	4,010	3,740	7.2
<i>% of Net Sales</i>	<i>2.9</i>	<i>4.3</i>		<i>5.9</i>	<i>4.2</i>	<i>3.9</i>	
Selling, general and administrative	12,920	12,640	2.2	11,600	24,520	25,590	(4.2)
<i>% of Net Sales</i>	<i>22.8</i>	<i>28.0</i>		<i>29.1</i>	<i>25.4</i>	<i>26.9</i>	
Total Expenditure	27,080	23,940	13.1	24,130	51,210	49,040	4.4
<b>EBITDA</b>	<b>29,520</b>	<b>21,170</b>	<b>39.4</b>	<b>15,760</b>	<b>45,280</b>	<b>45,940</b>	<b>(1.4)</b>
<i>Margin (%)</i>	<i>52.2</i>	<i>46.9</i>		<i>39.5</i>	<i>46.9</i>	<i>48.4</i>	
Depreciation	6,520	5,950	9.6	5,440	11,960	11,290	5.9
Other income	3,900	5,900	(33.9)	6,840	10,740	10,190	5.4
<b>EBIT</b>	<b>26,900</b>	<b>21,120</b>	<b>27.4</b>	<b>17,160</b>	<b>44,060</b>	<b>44,840</b>	<b>(1.7)</b>
Interest	680	250	172.0	520	1,200	540	122.2
<b>PBT</b>	<b>26,220</b>	<b>20,870</b>	<b>25.6</b>	<b>16,640</b>	<b>42,860</b>	<b>44,300</b>	<b>(3.3)</b>
Extraordinary income/(expense)	-	-		-	-	-	
<b>PBT (After EO)</b>	<b>26,220</b>	<b>20,870</b>	<b>25.6</b>	<b>16,640</b>	<b>42,860</b>	<b>44,300</b>	<b>(3.3)</b>
Tax	6,820	60	11,266.7	3,050	9,870	5,840	69.0
<i>% PBT</i>	<i>26.0</i>	<i>0.3</i>		<i>18.3</i>	<i>23.0</i>	<i>13.2</i>	
<b>Reported PAT</b>	<b>19,400</b>	<b>20,810</b>	<b>(6.8)</b>	<b>13,590</b>	<b>32,990</b>	<b>38,460</b>	<b>(14.2)</b>
<b>Adjusted PAT</b>	<b>19,400</b>	<b>17,160</b>	<b>13.1</b>	<b>13,590</b>	<b>32,990</b>	<b>34,810</b>	<b>(5.2)</b>

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)	2,335	2,348	(0.6)	1,961	2,148	2,556	(15.9)
LME Lead average (US\$/t)	1,873	2,028	(7.6)	1,673	1,773	1,957	(9.4)
<b>Production volume</b>							
- Mined metal (Zinc+Lead)-tonnes	-	2,19,000	(100.0)	2,02,000	2,02,000	4,32,000	(53.2)
- Refined metal (Zinc+Lead)-tonnes	2,37,000	2,10,150	12.8	2,01,600	4,38,600	4,29,341	2.2
- Silver (kgs)	2,03,000	1,34,000	51.5	1,17,497	3,20,497	2,92,969	9.4
<b>Sales volume</b>							
- Refined Zinc	1,81,000	1,67,900	7.8	1,63,000	3,44,000	3,35,400	2.6
- Refined Lead	57,000	43,900	29.8	45,000	1,02,000	91,400	11.6
- Silver (kgs)	2,03,000	1,34,700	50.7	1,46,000	3,49,000	2,89,700	20.5

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>1,85,610</b>	<b>2,11,531</b>	<b>2,31,064</b>	<b>2,56,570</b>
YoY gr. (%)	(12.1)	14.0	9.2	11.0
Cost of Goods Sold	-	-	-	-
Gross Profit	1,85,610	2,11,531	2,31,064	2,56,570
Margin (%)	100.0	100.0	100.0	100.0
Employee Cost	6,890	7,097	7,593	8,125
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>88,470</b>	<b>1,04,661</b>	<b>1,16,729</b>	<b>1,25,155</b>
YoY gr. (%)	(17.1)	18.3	11.5	7.2
Margin (%)	47.7	49.5	50.5	48.8
Depreciation and Amortization	22,790	24,999	26,643	28,287
<b>EBIT</b>	<b>65,680</b>	<b>79,662</b>	<b>90,086</b>	<b>96,868</b>
Margin (%)	35.4	37.7	39.0	37.8
Net Interest	1,120	1,300	1,300	1,300
Other Income	19,340	19,458	19,641	21,590
<b>Profit Before Tax</b>	<b>83,900</b>	<b>97,819</b>	<b>1,08,427</b>	<b>1,17,159</b>
Margin (%)	45.2	46.2	46.9	45.7
Total Tax	15,850	19,584	21,707	23,455
Effective tax rate (%)	18.9	20.0	20.0	20.0
<b>Profit after tax</b>	<b>68,050</b>	<b>78,236</b>	<b>86,720</b>	<b>93,703</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>68,050</b>	<b>78,236</b>	<b>86,720</b>	<b>93,703</b>
YoY gr. (%)	(14.5)	15.0	10.8	8.1
Margin (%)	36.7	37.0	37.5	36.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>68,050</b>	<b>78,236</b>	<b>86,720</b>	<b>93,703</b>
YoY gr. (%)	(14.5)	15.0	10.8	8.1
Margin (%)	36.7	37.0	37.5	36.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	68,050	78,236	86,720	93,703
<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>16.1</b>	<b>18.5</b>	<b>20.5</b>	<b>22.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>2,96,170</b>	<b>3,16,170</b>	<b>3,36,170</b>	<b>3,56,170</b>
Tangibles	2,96,170	3,16,170	3,36,170	3,56,170
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>1,31,480</b>	<b>1,56,479</b>	<b>1,83,122</b>	<b>2,11,409</b>
Tangibles	1,31,480	1,56,479	1,83,122	2,11,409
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>1,64,690</b>	<b>1,59,691</b>	<b>1,53,048</b>	<b>1,44,761</b>
Tangibles	1,64,690	1,59,691	1,53,048	1,44,761
Intangibles	-	-	-	-
Capital Work In Progress	27,060	30,060	31,810	24,810
Goodwill	-	-	-	-
Non-Current Investments	130	130	130	130
Net Deferred tax assets	18,220	15,285	12,033	8,518
Other Non-Current Assets	11,520	11,520	11,520	11,520
<b>Current Assets</b>				
Investments	2,03,290	2,03,290	2,03,290	2,03,290
Inventories	18,350	17,160	18,757	20,854
Trade receivables	4,010	2,288	2,501	2,780
Cash & Bank Balance	19,180	19,257	36,174	66,570
Other Current Assets	60	60	60	60
<b>Total Assets</b>	<b>4,69,750</b>	<b>4,61,981</b>	<b>4,72,563</b>	<b>4,86,533</b>
<b>Equity</b>				
Equity Share Capital	8,450	8,450	8,450	8,450
Other Equity	3,94,650	3,82,886	3,91,558	4,00,929
<b>Total Networkth</b>	<b>4,03,100</b>	<b>3,91,336</b>	<b>4,00,008</b>	<b>4,09,379</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	6,110	6,110	6,110	6,110
Provisions	1,620	1,620	1,620	1,620
Other non current liabilities	10,680	11,180	11,680	12,180
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	14,880	16,016	15,631	17,378
Other current liabilities	33,140	35,499	37,293	39,646
<b>Total Equity &amp; Liabilities</b>	<b>4,69,750</b>	<b>4,61,981</b>	<b>4,72,563</b>	<b>4,86,533</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	83,900	97,819	1,08,427	1,17,159
Add. Depreciation	22,790	24,999	26,643	28,287
Add. Interest	1,120	1,300	1,300	1,300
Less Financial Other Income	19,340	19,458	19,641	21,590
Add. Other	(19,080)	(19,458)	(19,641)	(21,590)
Op. profit before WC changes	88,730	1,04,661	1,16,729	1,25,155
Net Changes-WC	(11,170)	6,907	100	2,224
Direct tax	(11,350)	(16,649)	(18,455)	(19,941)
<b>Net cash from Op. activities</b>	<b>66,210</b>	<b>94,918</b>	<b>98,374</b>	<b>1,07,438</b>
Capital expenditures	(36,180)	(23,000)	(21,750)	(13,000)
Interest / Dividend Income	5,190	19,458	19,641	21,590
Others	4,510	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(26,480)</b>	<b>(3,542)</b>	<b>(2,109)</b>	<b>8,590</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(19,280)	-	-	-
Dividend paid	-	(89,999)	(78,048)	(84,333)
Interest paid	(1,700)	(1,300)	(1,300)	(1,300)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(20,980)</b>	<b>(91,299)</b>	<b>(79,348)</b>	<b>(85,633)</b>
<b>Net change in cash</b>	<b>18,750</b>	<b>77</b>	<b>16,917</b>	<b>30,396</b>
Free Cash Flow	30,030	71,918	76,624	94,438

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	16.1	18.5	20.5	22.2
CEPS	21.5	24.4	26.8	28.9
BVPS	95.4	92.6	94.7	96.9
FCF	7.1	17.0	18.1	22.4
DPS	16.5	21.3	18.5	20.0
<b>Return Ratio(%)</b>				
RoCE	17.0	19.8	22.4	23.6
ROIC	32.7	35.2	44.4	55.0
RoE	18.4	19.7	21.9	23.2
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.5)	(0.6)	(0.6)	(0.6)
Net Working Capital (Days)	15	6	9	9
<b>Valuation(x)</b>				
PER	13.8	12.0	10.9	10.0
P/B	2.3	2.4	2.4	2.3
P/CEPS	10.4	9.1	8.3	7.7
EV/EBITDA	8.2	6.9	6.1	5.4
EV/Sales	3.9	3.4	3.1	2.6
Dividend Yield (%)	7.4	9.6	8.3	9.0

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Net Revenue</b>	<b>46,720</b>	<b>43,910</b>	<b>39,890</b>	<b>56,600</b>
YoY gr. (%)	(15.7)	(20.0)	(20.0)	25.5
Raw Material Expenses	(1,710)	(1,000)	1,670	1,420
Gross Profit	48,430	44,910	38,220	55,180
Margin (%)	103.7	102.3	95.8	97.5
<b>EBITDA</b>	<b>22,890</b>	<b>19,640</b>	<b>15,760</b>	<b>29,520</b>
YoY gr. (%)	(19.3)	(29.6)	(36.4)	39.4
Margin (%)	49.0	44.7	39.5	52.2
Depreciation / Depletion	5,970	5,530	5,440	6,520
<b>EBIT</b>	<b>16,920</b>	<b>14,110</b>	<b>10,320</b>	<b>23,000</b>
Margin (%)	36.2	32.1	25.9	40.6
Net Interest	420	160	520	680
Other Income	4,450	4,700	6,840	3,900
<b>Profit before Tax</b>	<b>20,950</b>	<b>18,650</b>	<b>16,640</b>	<b>26,220</b>
Margin (%)	44.8	42.5	41.7	46.3
Total Tax	4,750	5,260	3,050	6,820
Effective tax rate (%)	22.7	28.2	18.3	26.0
<b>Profit after Tax</b>	<b>16,200</b>	<b>13,390</b>	<b>13,590</b>	<b>19,400</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>16,200</b>	<b>13,390</b>	<b>13,590</b>	<b>19,400</b>
YoY gr. (%)	(26.7)	(33.4)	(23.0)	(6.8)
Margin (%)	34.7	30.5	34.1	34.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>16,200</b>	<b>13,390</b>	<b>13,590</b>	<b>19,400</b>
YoY gr. (%)	(26.7)	(33.4)	(23.0)	(6.8)
Margin (%)	34.7	30.5	34.1	34.3
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>16,200</b>	<b>13,390</b>	<b>13,590</b>	<b>19,400</b>
Avg. Shares O/s (m)	4,225	4,225	4,225	4,225
<b>EPS (Rs)</b>	<b>3.8</b>	<b>3.2</b>	<b>3.2</b>	<b>4.6</b>

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY20	FY21E	FY22E	FY23E
Mined Zinc metal prod-MIC tns	7,20,000	7,80,373	8,44,133	9,56,340
Mined Lead metal prod-MIC tns	1,96,000	2,05,926	2,20,651	2,55,492
Total Mines metal-MIC tns	9,16,000	9,86,299	10,64,784	12,11,832
Refined Zinc Vol. (tonnes)	6,80,000	7,50,720	8,12,056	9,20,000
Refined Lead Vol. (tonnes)	1,80,000	1,91,247	2,04,862	2,37,374
Total Refined metal-tns	8,60,000	9,41,967	10,16,918	11,57,374
Concentrate sales vol (MIC tns)	5,435	1		
Silver Sales Vol. (kg)	5,86,000	6,46,536	6,92,453	8,02,644
Zinc (US\$)-LME / tonne	2,407	2,275	2,300	2,300
Lead(US\$)-LME / tonne	1,950	1,820	1,840	1,840
Silver (Rs / Kg)	42,395	57,000	53,900	52,500
Cost per tonne of Refined metal (Zn+Pb)	1,12,953	1,13,454	1,12,432	1,13,546

Source: Company Data, PL Research

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


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-20	Accumulate	233	205
2	22-Jul-20	Accumulate	200	183
3	10-Jul-20	Accumulate	195	193
4	22-May-20	Accumulate	195	169
5	20-Apr-20	Hold	200	175
6	21-Jan-20	Hold	235	212
7	03-Jan-20	Hold	235	215
8	29-Oct-19	Hold	235	220

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,805	1,563
2	Ambuja Cement	BUY	255	225
3	Coal India	Hold	132	113
4	Heidelberg Cement India	Accumulate	195	190
5	Hindalco Industries	BUY	218	174
6	Hindustan Zinc	Accumulate	233	205
7	Jindal Steel & Power	BUY	260	195
8	JK Lakshmi Cement	BUY	350	263
9	JSW Steel	Reduce	185	293
10	NMDC	Accumulate	98	83
11	Shree Cement	Reduce	19,100	20,297
12	Steel Authority of India	Reduce	30	34
13	Tata Steel	Reduce	315	374
14	The Ramco Cements	Reduce	660	756
15	Ultratech Cement	BUY	4,950	4,136

**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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