

Performs well....

Hindustan Zinc (HZL) reported a healthy Q4FY21 performance, primarily on account of higher-than-expected sales volume. For the quarter, zinc sales volumes came in at ~198000 tonnes (up 14% YoY, 9% QoQ, higher than our estimate: 191813 tonnes), lead sales volume came in at ~62000 tonnes (up 29% YoY, 17% QoQ, higher than our estimate: 54575 tonnes) while silver sales volume came in at ~203000 kg (up 41% YoY, 11% QoQ, higher than our estimate: 187500 kg). Topline came in at ₹ 6947 crore (up 58% YoY, 15% QoQ), higher than our estimate of ₹ 6435 crore. EBITDA came in at ₹ 3875 crore (up 97% YoY, 19% QoQ), higher than our estimate of ₹ 3594 crore. EBITDA margin came in at 55.8%, in line with our estimate (EBITDA margin of 54.2% in Q3FY21, 44.7% in Q4FY20). HZL's zinc cost of production (CoP) before royalty during quarter was at US\$945/tonne per tonne (₹ 68969/tonne), down 5%YoY both in rupee, US dollar terms and flat QoQ (down 1% in rupee terms). Ensuing PAT for Q4FY21 was at ₹ 2481 crore (up 13% QoQ, 85% YoY), higher than our estimate of ₹ 2353 crore.

Healthy reserve base provides earnings visibility over long term

HZL has a huge reserve base, which provides strong earnings visibility. During the year, total ore reserves increased from 114.7 million tonnes (MT) at the end of FY20 to 150.3 MT at the end of FY21 while mineral resources totalled 297.6 MT. Total R&R increased to 448 MT as HZL replenished more than it consumed during the year. Total contained metal in ore reserves is 9.16 MT of zinc, 2.55 MT of lead and 295.5 million ounces of silver. The mineral resources contains 14.9 MT of zinc, 6.3 MT of lead and 618.7 million ounces of silver. At current mining rates, the R&R underpins metal production for more than 25 years.

Outlook for FY22...

Going ahead, HZL has guided that both mined metal and finished metal production in FY22E will be higher than FY21 and is expected to be ~1025-1050 KT each. It has also guided that zinc CoP (before royalty) in FY22 will remain below US\$1000/tonne. FY22E saleable silver production is expected to be higher than FY21 and is projected at ~720 tonnes. The project capex for FY22 is expected to be ~US\$100 million.

Valuation & Outlook

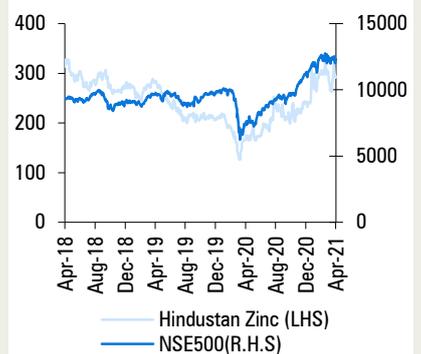
Over the last few months, healthy traction was witnessed in zinc prices on the LME. The uptick in zinc prices augurs well for HZL. Going forward, we model EBITDA margin of 54.2% in FY22E and 55.2% in FY23E (FY21 EBITDA margin was at 51.6%). We value the stock at 7x FY23E EV/EBITDA (upward revised from 6x earlier) and arrive at a target price of ₹ 340 (earlier target price of ₹ 290), maintaining our **HOLD** rating on the stock.



Particulars

	₹ Crore
Market Capitalization	1,30,182
Total Debt (FY21)	7,178
Gross Cash and Eq. (FY21)	22,308
EV	1,15,052
52 week H/L (₹)	334 / 164
Equity capital	845.1
Face value (₹)	₹ 2

Price Performance



Key Risks

- Notable rise in zinc cost of production (CoP)
- Significant rise in zinc, lead and silver prices

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22E	FY23E	CAGR (from FY21-FY23E in %)
Total Operating income	21,118	18,561	22,629	27,288	30,230	15.6
EBITDA	10,670	8,847	11,672	14,794	16,693	19.6
PAT	7,956	6,805	7,980	9,954	11,465	19.9
EPS (₹)	18.8	16.1	18.9	23.6	27.1	
P/E (x)	16.4	19.1	16.3	13.1	11.4	
EV/EBITDA (x)	10.6	12.3	9.9	7.5	6.2	
RoE (%)	23.7	16.9	24.7	27.3	26.8	
RoCE (%)	29.2	20.8	27.8	31.6	31.2	

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Operating Income	6947	6435	4391	58.2	6033	15.2	Topline came in higher than our estimates
Other Income	295	400	470	-37.2	450	-34.4	Other income came in lower than our estimates
Total Operating expense	3072	2842	2427	26.6	2764	11.1	
EBITDA	3875	3594	1964	97.3	3269	18.5	EBITDA came in higher than our estimates
EBITDA Margin (%)	55.8	55.8	44.7	1105 bps	54.2	159 bps	EBITDA margin came in line with our estimates
Depreciation	696	675	553	25.9	639	8.9	
Interest	131	175	16	0.0	135	-3.0	
Exceptional item	-	0	0	-	-	-	
PBT	3343	3144	1865	79.2	2945	13.5	
Tax Outgo	862	791	526	-	745	-	
PAT	2481	2353	1339	85.3	2200	12.8	PAT came broadly in higher than our estimates
Key Metrics							
Zinc sales (tonne)	1,98,000	191813	173000	14.5	1,82,000	8.8	Zinc sales volume came in higher than our estimate
Lead sales (tonne)	62,000	54575	48000	29.2	53,000	17.0	Lead sales volume came in higher than our estimates
Silver sales (kg)	2,03,000	187500	144000	41.0	1,83,000	10.9	Silver sales volume came in higher than our estimates

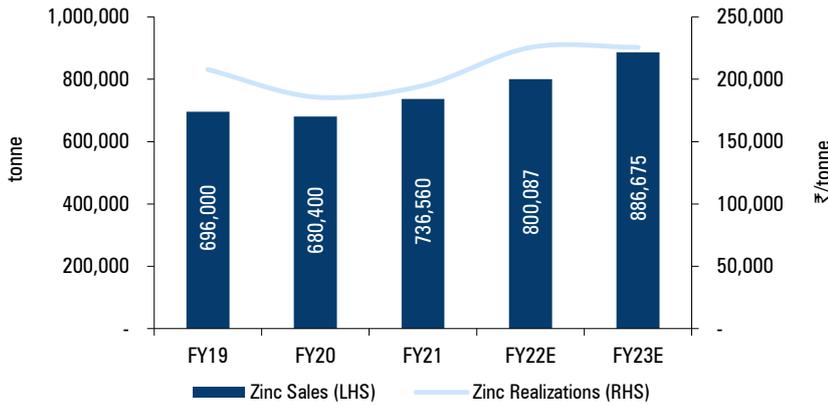
Source: Company, ICICI Direct Research

Conference Call Highlights

- HZL's zinc cost of production (CoP) before royalty during quarter was at US\$945/tonne per tonne (₹ 68969/tonne), down 5%YoY both in rupee and US dollar terms and flat sequentially (down 1% in rupee terms). The YoY decline in CoP is primarily due to higher volume, lower power costs, higher sulphuric acid credits and lower cement costs partly offset by higher met coke and diesel costs
- For the full year, CoP excluding royalty was \$954 (₹70,681), lower by 9%YoY (5% lower in rupee terms). The full year CoP decrease reflects higher production volume, lower met coke & power costs, lower cement costs partly offset by higher diesel costs and Covid-related donations
- HZL has guided that both mined metal and finished metal production in FY22E will be higher than FY21 and is expected to be ~1025-1050 KT each
- HZL has also guided that zinc CoP (before royalty) in FY22 is expected to remain below US\$ 1000/tonne
- FY22E saleable silver production is expected to be higher than FY21 and is projected at ~720 tonnes
- The project capex for FY22 is expected to be ~US\$100 million. Maintenance capex for FY22 is expected to be ~US\$150-200 million. Subsequently total capex for FY22 (growth capex + maintenance capex combined) is expected to ~US\$250-300 million

Financial story in charts

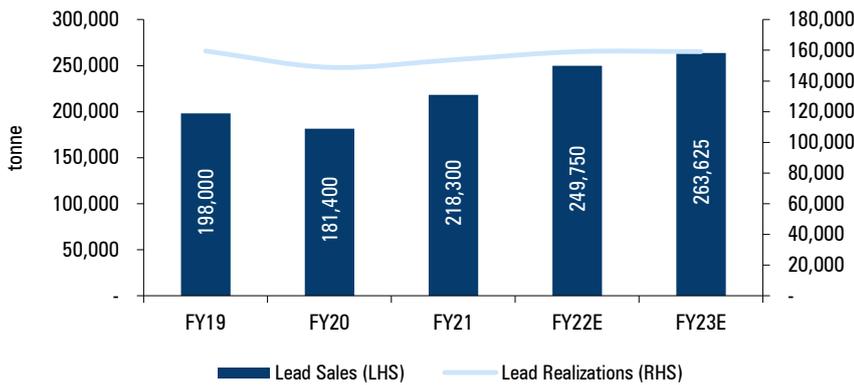
Exhibit 3: Zinc sales volume and realisation trend



Zinc sales volume is expected to grow at a CAGR of ~11% during FY21-FY23E

Source: Company, ICICI Direct Research

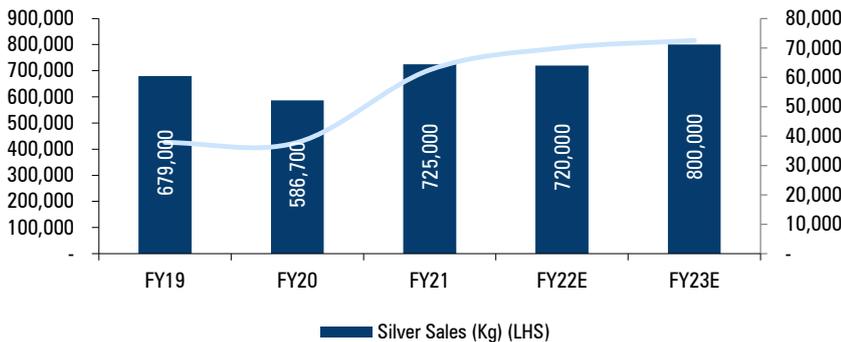
Exhibit 4: Lead sales volume and realisation trend...



Lead sales volume is expected to grow at a CAGR of ~10% during FY20-FY23E

Source: Company, ICICI Direct Research

Exhibit 5: Silver sales volume and realisation



Silver sales volume is expected to grow at a CAGR of ~4% during FY20-23E

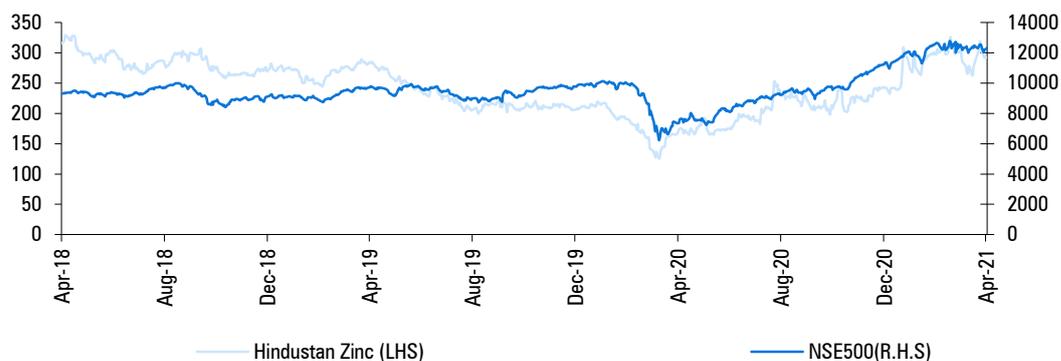
Source: Company, ICICI Direct Research

Exhibit 6: Valuation Matrix

Years	Total Op Income (₹ cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	22084	27.9	22.0	11.5	14.0	8.8	25.8	34.0
FY19	21118	-4.4	18.8	-14.2	16.4	10.6	23.7	29.2
FY20	18561	-12.1	16.1	-14.5	19.1	12.3	16.9	20.8
FY21	22629	21.9	18.9	17.3	16.3	9.9	24.7	27.8
FY22E	27288	20.6	23.6	24.7	13.1	7.5	27.3	31.6
FY23E	30230	10.8	27.1	15.2	11.4	6.2	26.8	31.2

Source: Company, ICICI Direct Research

Exhibit 7: Price Performance



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Sep-20	Dec-20	Mar-21
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

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	18561	22629	27288	30230
Growth (%)	-12	22	21	11
Total Operating Expend.	9,714	10,957	12,494	13,538
EBITDA	8,847	11,672	14,794	16,693
Growth (%)	-17	32	27	13
Depreciation	2,279	2,531	2,656	2,862
Interest	112	386	300	260
Other Income	1,934	1,819	1,650	1,750
PBT	8,390	10,574	13,488	15,321
Exceptional Item	0	0	0	0
Total Tax	1,585	2,594	3,534	3,856
PAT	6,805	7,980	9,954	11,465
Growth (%)	-14	17	25	15
EPS (₹)	16.1	18.9	23.6	27.1

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	6,805	7,980	9,954	11,465
Add: Depreciation	2,279	2,531	2,656	2,862
(Inc)/dec in Current Assets	145	1,106	-546	-423
Inc/(dec) in CL and Provisions	-261	182	805	700
Others	0	0	0	0
CF from operating activities	8,968	11,799	12,869	14,603
(Inc)/dec in Investments	-841	7,372	-5,000	-6,000
(Inc)/dec in Fixed Assets	-4,203	-2,305	-2,250	-2,500
Others	0	0	0	0
CF from investing activities	-5,044	5,067	-7,250	-8,500
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-1,927	6,567	0	0
Dividend paid & dividend tax	-8,156	-8,999	-5,070	-5,070
Inc/(dec) in Share Cap	0	4	-790	0
Others	8,056	-6,978	0	0
CF from financing activities	-2,027	-9,406	-5,860	-5,070
Net Cash flow	1,897	7,460	-241	1,033
Opening Cash	23	1,918	9,376	9,135
Closing Cash	1,918	9,376	9,135	10,168

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	845	845	845	845
Reserve and Surplus	39,465	31,468	35,562	41,957
Total Shareholders funds	40,310	32,313	36,407	42,802
Total Debt	611	7,178	7,178	7,178
Total Liabilities	40,921	39,491	43,585	49,980
Assets				
Gross Block	25,647	28,517	32,189	34,689
Less: Acc Depreciation	9,178	11,709	14,365	17,227
Net Block	16,469	16,808	17,824	17,463
Capital WIP	2,489	1,922	500	500
Total Fixed Assets	18,958	18,730	18,324	17,963
Investments	20,329	12,957	17,957	23,957
Inventory	1,835	1,425	1,535	1,744
Trade receivables	401	406	592	656
Other Current Assets	3,534	2,833	3,083	3,233
Cash	1,918	9,376	9,135	10,168
Total Current Assets	7,689	14,040	14,345	15,801
Trade payables	1,488	1,545	1,850	2,050
Other current liabilities	4,566	4,691	5,191	5,691
Provisions	0	0	0	0
Current Liabilities & Prov	6,054	6,236	7,041	7,741
Net Current Assets	1,634	7,804	7,304	8,060
Application of Funds	40,921	39,491	43,585	49,980

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	16.1	18.9	23.6	27.1
Cash EPS	21.5	24.9	29.8	33.9
BV	95.4	76.5	86.2	101.3
DPS	16.5	21.3	12.0	12.0
Cash Per Share (Incl Invst)	52.7	52.9	64.1	80.8
Operating Ratios (%)				
EBITDA Margin	47.7	51.6	54.2	55.2
PBT / Total Op. income	45.2	46.7	49.4	50.7
PAT Margin	36.7	35.3	36.5	37.9
Inventory days	33	27	20	20
Debtor days	8	7	8	8
Creditor days	29	25	25	25
Return Ratios (%)				
RoE	16.9	24.7	27.3	26.8
RoCE	20.8	27.8	31.6	31.2
Valuation Ratios (x)				
P/E	19.1	16.3	13.1	11.4
EV / EBITDA	12.3	9.9	7.5	6.2
EV / Net Sales	5.8	5.1	4.0	3.4
Market Cap / Sales	7.0	5.8	4.8	4.3
Price to Book Value	3.2	4.0	3.6	3.0
Solvency Ratios				
Debt/EBITDA	0.1	0.6	0.5	0.4
Debt / Equity	0.0	0.2	0.2	0.2
Current Ratio	1.0	0.7	0.7	0.7
Quick Ratio	0.6	0.5	0.5	0.5

Source: Company, ICICI Direct Research

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

	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)		(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Coal India	129	140	Hold	79765	20.3	21.0	22.7	6.5	6.3	5.9	3.7	4.1	4.3	39.6	35.6	33.0	33.6	30.3	28.2
Hindalco	363	390	Buy	81442	31.9	35.1	40.4	10.4	9.4	8.2	7.2	6.7	5.9	9.2	9.7	10.5	11.1	11.0	11.3
Hind Zinc	308	340	Hold	130182	18.7	23.6	27.2	15.0	12.0	10.4	9.2	7.0	5.8	27.3	30.4	30.1	25.1	27.5	26.9
JSW Steel	662	675	Hold	160008	32.9	59.2	62.7	20.3	11.2	10.6	10.8	7.2	6.4	13.4	20.1	20.4	17.9	24.5	20.7
NMDC	148	125	Hold	43270	17.1	11.9	3.7	6.6	9.5	8.2	4.7	5.6	5.0	21.4	13.2	14.0	16.7	10.9	11.9
Ratnamani	1936	1900	Buy	9048	49.4	64.5	79.2	32.9	25.2	20.5	22.6	16.8	13.9	16.2	19.6	21.6	12.3	14.1	15.8
Graphite Ind.	705	825	Buy	13784	3.0	55.0	84.0	224.0	12.6	8.2	NA	9.1	4.6	-5.4	19.0	25.2	1.3	19.3	23.4
Tata Steel	971	1150	Buy	116194	73.3	132.6	129.9	13.3	7.4	7.5	6.6	5.4	5.4	11.6	13.6	12.1	10.6	15.7	12.7
Sail	103	130	Buy	42746	9.0	15.0	17.0	10.7	6.6	6.0	6.0	5.2	4.6	11.2	12.2	12.3	9.3	12.7	12.5
Jindal Stainless Jindal	87	90	Buy	3861	2.8	7.1	9.2	26.6	10.5	8.1	6.7	5.1	4.5	10.7	14.9	16.4	4.8	10.9	12.4
Stainless Hisar	158	170	Buy	3242	13.0	18.0	21.0	10.9	7.6	6.6	6.3	5.2	4.6	11.6	13.7	14.0	11.4	14.0	13.8

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Dewang Sanghavi MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.