

## FY21 silver volume is likely to exceed the guidance...

Hindustan Zinc (HZL) reported steady set of performance for Q3FY21, wherein topline and EBITDA came in marginally higher than our estimate, while PAT came broadly in line with our estimates. For the quarter, zinc sales volumes came in at ~182000 tonnes (up 6% YoY, 1% QoQ, marginally higher than our estimate: 180048 tonnes), lead sales volume came in at ~53000 tonnes (up 26% YoY, however down by 7% QoQ, in line with our estimate: 53188 tonnes) while silver sales volume came in at ~183000 kg (up 19% YoY, however down 10% QoQ, higher than our estimate: 175000 kg). EBITDA came in at ₹ 3269 crore (up 43% YoY, 11% QoQ), marginally higher than our estimate of ₹ 3128 crore. EBITDA margin came in at 54.2%, broadly in line with our estimate of 54.0% (EBITDA margin of 52.2% in Q2FY21 and 49.0% in Q3FY20). HZL's Zinc cost of production (CoP) before royalty during quarter stood at US \$946/tonne per tonne, lower by 12%YoY & higher by 3%QoQ. The ensuing PAT for Q3FY21 stood at ₹ 2200 crore (up 36% QoQ but down 13% YoY), in line with our estimate of ₹ 2173 crore.

## 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.

## Volume performance healthy during 9MFY21 ...

Earlier, HZL had guided for mined metal and finished metal production of 925-950 KT each and saleable silver production of 650 tonnes. It had also guided for zinc CoP to remain below US\$ 1000/tonne. On the back of healthy performance during 9MFY21, HZL is on track to achieve its mined metal and refined metal volume guidance. It is also likely to exceed its guidance on silver production and cost of production for FY21.

## Valuation & Outlook

Over the last few months, there has a healthy traction witnessed in Zinc prices on the LME. During Q3FY21, average Zinc prices on the LME stood at US\$ 2628/tonne (up 10% YoY 12% QoQ). The uptick in Zinc prices augurs well for HZL. We have introduced FY23E estimates and roll over our valuations to FY23E. Going forward, we have modelled EBITDA margin of 51.5% in FY21E, 53.9% in FY22E and 54.8% in FY23E. We have valued the stock at 6x FY23E EV/EBITDA and arrived at a target price of ₹ 290, assigning a **HOLD** recommendation on the stock (earlier target price of ₹230).

### Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR ( in %)
Total Operating income	22,084	21,118	18,561	22,491	26,618	29,414	16.6
EBITDA	12,272	10,670	8,847	11,588	14,359	16,117	22.1
PAT	9,276	7,956	6,805	7,889	9,979	11,495	19.1
EPS (₹)	22.0	18.8	16.1	18.7	23.6	27.2	
P/E (x)	12.9	15.0	17.6	15.2	12.0	10.4	
EV/EBITDA (x)	7.9	9.6	11.1	9.2	7.0	5.8	
RoE (%)	25.8	23.7	16.9	25.1	27.5	26.9	
RoCE (%)	34.0	29.2	20.8	27.3	30.4	30.1	

Source: Company, ICICI Direct Research

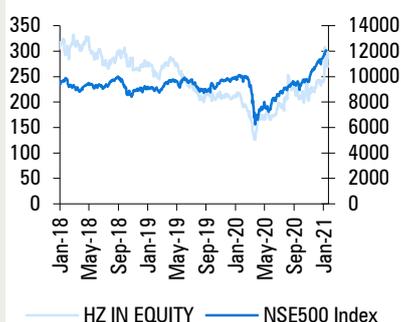


## HINDUSTAN ZINC

### Particulars

	₹ Crore
Market Capitalization	119,661
Total Debt (Q3FY21)	10,037
Gross Cash and Eq. (Q3FY21)	21,024
EV	108,674
52 week H/L (₹)	328 / 122
Equity capital	845.1
Face value (₹)	₹ 2

### Price Chart



### Key Risks

- **Downside risk:** Notable rise in Zinc Cost of Production (CoP).
- **Upside risk:** Significant rise in zinc, lead and silver prices.

### Research Analyst

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**Exhibit 1: Variance Analysis**

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Operating Income	6033	5792	4672	29.1	3989	51.2	Topline came marginally higher than our estimates
Other Income	450	425	445	1.1	684	-34.2	Other income came in higher than our estimates
Total Operating expense	2764	2664	2383	16.0	2413	14.5	
EBITDA	3269	3128	2289	42.8	1576	107.4	EBITDA came marginally higher than our estimates
EBITDA Margin (%)	54.2	54.0	49.0	519 bps	39.5	1468 bps	EBITDA margin came broadly in line with our estimates
Depreciation	639	656	597	7.0	544	17.5	
Interest	135	75	42	0.0	52	159.6	
Exceptional item	-	0	0	-	-	-	
PBT	2945	2822	2095	40.6	1664	77.0	
Tax Outgo	745	649	475	-	305	-	
PAT	2200	2173	1620	35.8	1359	61.9	PAT came broadly in line with our estimates
<b>Key Metrics</b>							
Zinc sales (tonne)	182,000	180,048	172,000	5.8	181,000	0.6	Zinc sales volume came in marginally higher than our estimate
Lead sales (tonne)	53,000	53,188	42,000	26.2	57,000	-7.0	Lead sales volume in line with our estimates
Silver sales (kg)	183,000	175,000	154,000	18.8	203,000	-9.9	Silver sales volume came in higher than our estimates

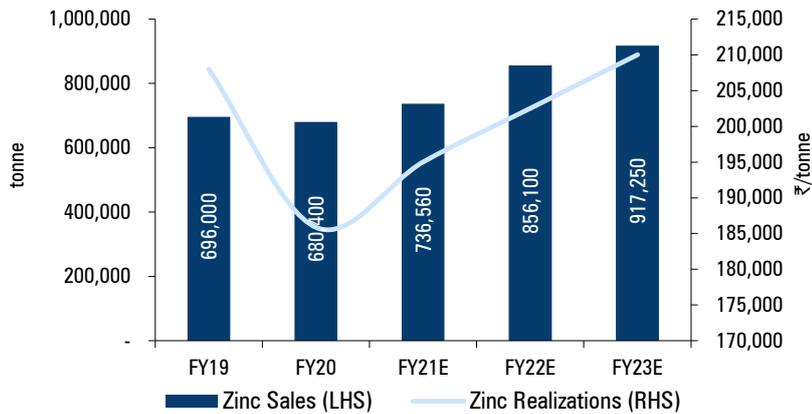
Source: Company, ICICI Direct Research

## Conference Call Highlights

- Zinc's cost of production (CoP) before royalty was US\$ 946 (₹ 69744) per tonne for the quarter, lower by 12% YoY and 3% QoQ. COP for the quarter was impacted by one-time employee pay-outs equivalent to \$20 per MT. Hence adjusted zinc CoP before royalty stood at US\$926/tonne.
- The company received Environment Clearance (EC) received from Ministry of Environment & Forest (MOEF) for Zawar mine expansion from current 4 Million tonne (MT) per annum to 4.8 Million tonne (MT) per annum.
- Furthermore, Chanderiya zinc smelter also received EC for expansion from current 0.42 Million tonne per annum to 0.50 Million tonne per annum.
- During the quarter, both back-fill plants at Zawar mines were commissioned. Going ahead, the management expect these mines to de-risk operations & provide opportunity to mine left-out high grade ore in pillars.
- Management has maintained its capex guidance of US\$ 330 million for FY21, wherein US\$ 140 million is for growth capex, while the balance US\$ 190 million is for maintenance capex.

## Financial story in charts

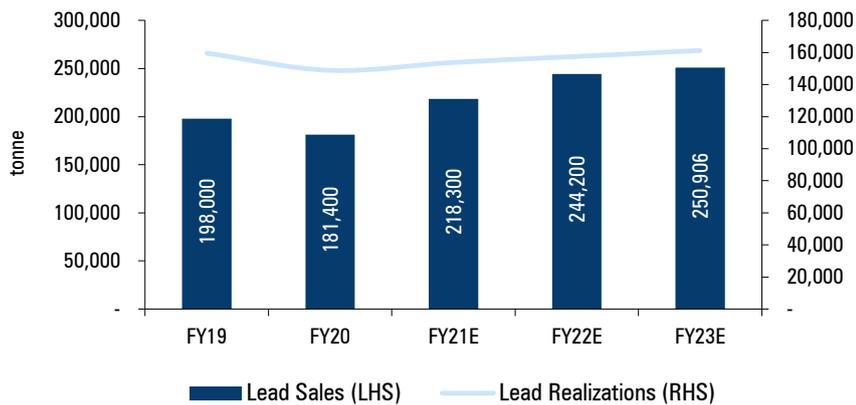
### Exhibit 3: Zinc sales volume and realisation trend



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

Source: Company, ICICI Direct Research

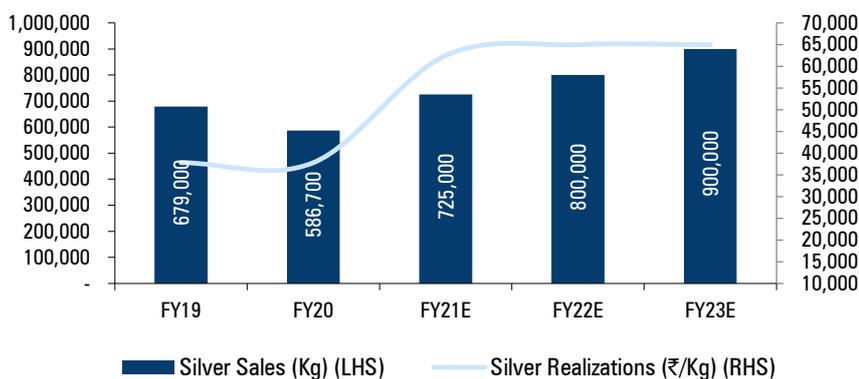
Exhibit 4: Lead sales volume and realisation trend...



Lead sales volume is expected to grow at a CAGR of ~9% 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 ~15% during FY20-23E

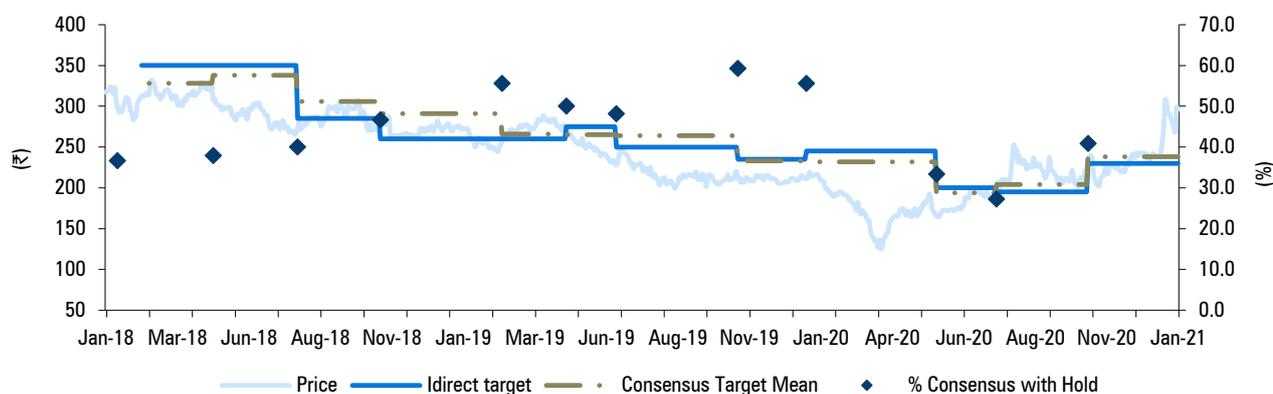
Source: Company, ICICI Direct Research

Exhibit 6: 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	12.9	7.9	25.8	34.0
FY19	21118	-4.4	18.8	-14.2	15.0	9.6	23.7	29.2
FY20	18561	-12.1	16.1	-14.5	17.6	11.1	16.9	20.8
FY21E	22491	21.2	18.7	15.9	15.2	9.2	25.1	27.3
FY22E	26618	18.3	23.6	26.5	12.0	7.0	27.5	30.4

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Latest Filing	% O/S	Position (m)	Change (m)
1	VEDANTA LTD	30-09-2020	64.9	2743.2	0.0
2	GOVERNMENT OF INDIA	30-09-2020	29.6	1250.3	0.4
3	LIFE INSURANCE CORP	30-09-2020	2.0	83.3	0.0
4	BODIES CORPORATE	30-09-2020	0.5	18.9	-2.1
5	JANUS HENDERSON GROU	30-09-2020	0.3	12.1	0.1
6	VANGUARD GROUP	31-12-2020	0.2	7.9	0.1
7	UTI ASSET MANAGEMENT	30-11-2020	0.1	4.7	-0.3
8	ICICI PRUDENTIAL ASS	31-12-2020	0.1	2.3	-0.4
9	DSP BLACKROCK INVEST	31-12-2020	0.1	1.9	-0.2
10	STATE STREET CORP	19-01-2021	0.0	1.3	-0.1

Source: Reuters, ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Jun-20	Sep-20	Dec-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

Exhibit10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total Operating Income</b>	<b>18561</b>	<b>22491</b>	<b>26618</b>	<b>29414</b>
Growth (%)	-12	21	18	11
Total Operating Expend.	9,714	10,903	12,259	13,297
<b>EBITDA</b>	<b>8,847</b>	<b>11,588</b>	<b>14,359</b>	<b>16,117</b>
Growth (%)	-17	31	24	12
Depreciation	2,279	2,557	2,692	2,899
Interest	112	370	300	260
Other Income	1,934	2,034	2,150	2,403
PBT	8,390	10,695	13,517	15,361
Exceptional Item	0	0	0	0
Total Tax	1,585	2,806	3,538	3,866
<b>PAT</b>	<b>6,805</b>	<b>7,889</b>	<b>9,979</b>	<b>11,495</b>
Growth (%)	-14	16	27	15
<b>EPS (₹)</b>	<b>16.1</b>	<b>18.7</b>	<b>23.6</b>	<b>27.2</b>

Source: Company, ICICI Direct Research

Exhibit11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	6,805	7,889	9,979	11,495
Add: Depreciation	2,279	2,557	2,692	2,899
(Inc)/dec in Current Assets	145	-436	-524	-657
Inc/(dec) in CL and Provisions	-261	941	836	727
Others	0	0	0	0
<b>CF from operating activities</b>	<b>8,968</b>	<b>10,951</b>	<b>12,984</b>	<b>14,464</b>
(Inc)/dec in Investments	-841	5,000	-3,000	-3,000
(Inc)/dec in Fixed Assets	-4,203	-2,500	-2,500	-2,500
Others	0	0	0	0
<b>CF from investing activities</b>	<b>-5,044</b>	<b>2,500</b>	<b>-5,500</b>	<b>-5,500</b>
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-1,927	8,483	0	0
Dividend paid & dividend tax	-8,156	-8,999	-5,070	-5,070
Inc/(dec) in Share Cap	0	0	0	0
Others	8,056	-7,768	0	0
<b>CF from financing activities</b>	<b>-2,027</b>	<b>-8,284</b>	<b>-5,070</b>	<b>-5,070</b>
Net Cash flow	1,897	5,167	2,414	3,894
Opening Cash	23	1,918	7,083	9,497
<b>Closing Cash</b>	<b>1,918</b>	<b>7,083</b>	<b>9,497</b>	<b>13,391</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	845	845	845	845
Reserve and Surplus	39,465	30,586	35,496	41,921
Total Shareholders funds	40,310	31,431	36,341	42,766
Total Debt	611	9,094	9,094	9,094
Deferred Tax Liability	0	0	0	0
Minority Interest / Others	0	0	0	0
<b>Total Liabilities</b>	<b>40,921</b>	<b>40,526</b>	<b>45,435</b>	<b>51,860</b>
<b>Assets</b>				
Gross Block	25,647	27,649	32,638	35,138
Less: Acc Depreciation	9,178	11,735	14,428	17,326
Net Block	16,469	15,914	18,210	17,812
Capital WIP	2,489	2,989	500	500
Total Fixed Assets	18,958	18,903	18,710	18,312
Investments	20,329	15,329	18,329	21,329
Inventory	1,835	2,435	2,619	2,965
Trade receivables	401	488	578	638
Other Current Assets	3,534	3,284	3,534	3,784
Cash	1,918	7,083	9,497	13,391
Total Current Assets	7,689	13,290	16,227	20,778
Trade payables	1,488	1,830	2,166	2,393
Other current liabilities	4,566	5,166	5,666	6,166
Provisions	0	0	0	0
Current Liabilities & Prov	6,054	6,996	7,832	8,559
Net Current Assets	1,634	6,294	8,396	12,219
<b>Application of Funds</b>	<b>40,921</b>	<b>40,526</b>	<b>45,435</b>	<b>51,860</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	16.1	18.7	23.6	27.2
Cash EPS	21.5	24.7	30.0	34.1
BV	95.4	74.4	86.0	101.2
DPS	16.5	21.3	12.0	12.0
Cash Per Share (Incl Invst)	52.7	53.0	65.9	82.2
<b>Operating Ratios (%)</b>				
EBITDA Margin	47.7	51.5	53.9	54.8
PBT / Total Op. income	45.2	47.6	50.8	52.2
PAT Margin	36.7	35.1	37.5	39.1
Inventory days	33	35	35	35
Debtor days	8	8	8	8
Creditor days	29	30	30	30
<b>Return Ratios (%)</b>				
RoE	16.9	25.1	27.5	26.9
RoCE	20.8	27.3	30.4	30.1
RoIC	40.6	59.7	68.2	79.4
<b>Valuation Ratios (x)</b>				
P/E	17.6	15.2	12.0	10.4
EV / EBITDA	11.1	9.2	7.0	5.8
EV / Net Sales	5.3	4.7	3.8	3.2
Market Cap / Sales	6.4	5.3	4.5	4.1
Price to Book Value	3.0	3.8	3.3	2.8
<b>Solvency Ratios</b>				
Debt/EBITDA	0.1	0.8	0.6	0.6
Debt / Equity	0.0	0.3	0.3	0.2
Current Ratio	1.0	0.9	0.9	0.9
Quick Ratio	0.6	0.5	0.5	0.5

Source: Company, ICICI Direct Research

**Exhibit 14: ICICI Direct coverage universe (Metals and Mining)**

	CMP	TP	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹) Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Coal India	142	130 Hold	87928	27.1	22.2	22.9	5.2	6.4	6.2	3.0	4.6	4.7	55.5	40.2	40.1	51.9	39.0	36.9
Hindalco	260	240 Buy	58310	18.2	25.3	34.4	14.3	10.3	7.6	6.9	7.0	5.8	7.8	7.7	9.2	6.9	9.0	10.9
Hind Zinc	283	290 Hold	119661	16.1	18.7	23.6	15.2	12.0	10.4	9.2	7.0	5.8	27.3	30.4	30.1	25.1	27.5	26.9
JSW Steel	396	330 Hold	95637	19.5	16.7	33.5	20.2	20.2	10.1	12.7	10.0	6.5	7.2	8.4	13.3	12.7	9.8	16.5
NMDC	125	100 Hold	38213	11.8	11.6	9.0	10.6	10.7	13.8	4.5	5.0	5.5	20.3	14.3	9.9	13.1	11.3	8.3
Ratnamani	1607	1475 Buy	7510	65.8	53.1	73.8	24.4	30.3	21.8	17.5	21.3	15.2	22.2	16.1	21.8	18.0	13.1	15.7
Graphite Ind.	324	185 Hold	6325	2.0	-1.0	18.0	78.0	NA	10.5	NA	NA	3.6	-2.6	-5.7	4.4	1.0	-0.4	7.3
Tata Steel	678	625 Buy	77720	41.4	18.4	58.1	16.7	37.6	11.9	10.7	9.8	6.3	4.8	5.0	8.7	6.4	2.8	7.7

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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