

January 21, 2021

Q3FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	REDUCE		REDUCE	
Target Price	260		262	
Sales (Rs. m)	2,44,447	2,62,455	2,44,590	2,54,444
% Chng.	(0.1)	3.1		
EBITDA (Rs. m)	1,28,627	1,30,078	1,28,421	1,23,467
% Chng.	0.2	5.4		
EPS (Rs.)	22.6	22.8	22.9	22.0
% Chng.	(1.2)	4.1		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,85,610	2,20,608	2,44,447	2,62,455
EBITDA (Rs. m)	88,470	1,12,242	1,28,627	1,30,078
Margin (%)	47.7	50.9	52.6	49.6
PAT (Rs. m)	68,050	82,364	95,550	96,527
EPS (Rs.)	16.1	19.5	22.6	22.8
Gr. (%)	(14.5)	21.0	16.0	1.0
DPS (Rs.)	16.5	21.3	20.4	20.6
Yield (%)	5.6	7.2	6.9	6.9
RoE (%)	18.4	20.6	23.9	23.6
RoCE (%)	17.0	21.5	25.1	24.5
EV/Sales (x)	5.6	4.7	4.2	3.8
EV/EBITDA (x)	11.7	9.2	7.9	7.6
PE (x)	18.4	15.2	13.1	13.0
P/BV (x)	3.1	3.2	3.1	3.0

Key Data

HZNC.BO | HZ IN

52-W High / Low	Rs.328 / Rs.116
Sensex / Nifty	49,792 / 14,645
Market Cap	Rs.1,252bn/ \$ 17,150m
Shares Outstanding	4,225m
3M Avg. Daily Value	Rs.889.47m

Shareholding Pattern (%)

Promoter's	64.92
Foreign	1.12
Domestic Institution	2.55
Public & Others	31.41
Promoter Pledge (Rs bn)	187.42

Stock Performance (%)

	1M	6M	12M
Absolute	22.6	57.8	37.0
Relative	15.6	18.6	14.3

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Lower volumes restricted earnings growth

Quick Pointers:

- Ore grade further deteriorated QoQ
- Cost of production (CoP) to remain below US\$1,000/t

Hindustan Zinc (HZ) reported EBITDA tad below our estimates by 3% due to lower volumes. While, earnings beat consensus estimates by 6%.

HZ missed its guidance on volumes and ore grade over last 3-4 years due to weaker than assessed ore grade. Ore grade has fallen by ~30% in last 5 years due to lower grade of new mines and reduced share of Rampura Agucha (RA) mines. As the new shafts at both RA and Sindesar Khurd (SK) mines commenced operations, quality of operations would improve with better visibility on production and costs. However, ore grade would continue to remain volatile due to increase in share of mines having low grade of ore. Given the sharp run-up in stock price and unattractive valuations, we maintain Reduce rating with TP of Rs260 based on EV/EBITDA of 6x FY22e.

- Lower volumes led the miss:** Refined metal sales volume fell marginally by 1% QoQ (+10% YoY) at 235kt (PLe:245kt). Due to lower ore grade in SK mines, Silver volumes fell 10% QoQ (+20% YoY) to 183t, below our estimate of 191t. Metal realisations came above our estimates by 1.5% at USD2,685/t (+13% QoQ/+7% YoY) due to higher premiums. Revenue grew 6.6% QoQ/29% YoY at Rs60.3bn (PLe:Rs62.3bn). Total cost/t came above our estimates at USD1,595 (PLe:US\$1,575), +1.8% QoQ/+4% YoY due to lower volumes. EBITDA came tad below our estimates at Rs32.7bn (PLe:Rs33.8bn), up 11% QoQ/43% YoY. Due to lower than expected other income (Rs4.5bn v/s PLe:Rs5.5bn) and higher tax rate at 25.3% (PLe:23%/26% in Q2FY21), growth in PAT was restricted to 13.4% QoQ/36% YoY at Rs22.0bn (PLe:Rs24.9bn).
- Key highlights of earnings con-call:** **1)** Domestic zinc consumption grew 6-7% QoQ/12-13% YoY in Q3FY21 **2)** Ore grade slipped marginally by 8bps QoQ to 7.06% **3)** Expect ore grade to improve to ~7.15-7.20% **4)** Maintained capex guidance for FY21e at ~US\$290-330mn including growth capex of US\$100-140mn **5)** Received EC for increasing mining capacity of Zawar mine by 20% to 4.8MTPA and smelting capacity of Chanderiya zinc smelter by 19% to 0.5MTPA **6)** Reiterated production guidance of combined zinc and lead metal/Silver for FY21e at 925-950kt/650t (674kt/503t in 9MFY21) **7)** Would exit mined metal production in Q4FY21 at peak capacity run-rate of 1.2mtpa **8)** Maintained guidance of CoP<US\$1,000/t for FY21e (US\$946/US\$958 in Q3FY21/9MFY21) **9)** Employee cost in Q3 included one-time bonus of Rs350mn, equivalent to US\$20/t **10)** Share of exports normalised to 26% in Q3FY21 from 29%/65-70% in Q1FY21/Q2FY21 **11)** Net cash & cash equivalents fell 38% QoQ to Rs110bn due to dividend payment of Rs90bn

Exhibit 1: Q3FY21 Result Overview (Rs mn)

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
Net Sales	60,330	46,720	29.1	56,600	1,56,820	1,41,700	10.7
Raw material consumed	250	(1,710)	-	1,420	3,340	(1,910)	(274.9)
<i>% of Net Sales</i>	<i>0.4</i>	<i>-3.7</i>		<i>2.5</i>	<i>2.1</i>	<i>-1.3</i>	
Power and fuel	4,400	4,040	8.9	4,350	12,630	12,620	0.1
<i>% of Net Sales</i>	<i>7.3</i>	<i>8.6</i>		<i>7.7</i>	<i>8.1</i>	<i>8.9</i>	
Mining Royalty Rates	7,300	6,130	19.1	6,730	18,660	17,460	6.9
<i>% of Net Sales</i>	<i>12.1</i>	<i>13.1</i>		<i>11.9</i>	<i>11.9</i>	<i>12.3</i>	
Employee Cost	1,890	2,010	(6.0)	1,660	5,900	5,750	2.6
<i>% of Net Sales</i>	<i>3.1</i>	<i>4.3</i>		<i>2.9</i>	<i>3.8</i>	<i>4.1</i>	
Selling, general and administrative	13,800	13,360	3.3	12,920	38,320	38,950	(1.6)
<i>% of Net Sales</i>	<i>22.9</i>	<i>28.6</i>		<i>22.8</i>	<i>24.4</i>	<i>27.5</i>	
Total Expenditure	27,640	23,830	16.0	27,080	78,850	72,870	8.2
EBITDA	32,690	22,890	42.8	29,520	77,970	68,830	13.3
<i>Margin (%)</i>	<i>54.2</i>	<i>49.0</i>		<i>52.2</i>	<i>49.7</i>	<i>48.6</i>	
Depreciation	6,390	5,970	7.0	6,520	18,350	17,260	6.3
Other income	4,500	4,450	1.1	3,900	15,240	14,640	4.1
EBIT	30,800	21,370	44.1	26,900	74,860	66,210	13.1
Interest	1,350	420	221.4	680	2,550	960	165.6
PBT	29,450	20,950	40.6	26,220	72,310	65,250	10.8
Extraordinary income/(expense)	-	-		-	-	-	
PBT (After EO)	29,450	20,950	40.6	26,220	72,310	65,250	10.8
Tax	7,450	4,750	56.8	6,820	17,320	10,590	63.6
<i>% PBT</i>	<i>25.3</i>	<i>22.7</i>		<i>26.0</i>	<i>24.0</i>	<i>16.2</i>	
Reported PAT	22,000	16,200	35.8	19,400	54,990	54,660	0.6
Adjusted PAT	22,000	16,200	35.8	19,400	54,990	51,010	7.8

Source: Company, PL

Exhibit 2: Key Operating Metrics

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
LME Zinc average (US\$/t)	2,628	2,388	10.1	2,335	2,308	2,500	(7.7)
LME Lead average (US\$/t)	1,901	2,045	(7.0)	1,873	1,816	1,986	(8.6)
Production volume							
- Mined metal (Zinc+Lead)-tonnes	2,44,000	2,35,000	3.8	2,38,000	6,84,000	6,67,000	2.5
- Refined metal (Zinc+Lead)-tonnes	2,34,000	2,19,301	6.7	2,37,000	6,72,600	6,48,642	3.7
- Silver (kgs)	1,83,000	1,49,000	22.8	2,03,000	5,03,497	4,41,969	13.9
Sales volume							
- Refined Zinc	1,82,000	1,72,000	5.8	1,81,000	5,26,000	5,07,400	3.7
- Refined Lead	53,000	42,000	26.2	57,000	1,55,000	1,33,400	16.2
- Silver (kgs)	1,83,000	1,53,000	19.6	2,03,000	5,32,000	4,42,700	20.2

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,85,610	2,20,608	2,44,447	2,62,455
YoY gr. (%)	(12.1)	18.9	10.8	7.4
Cost of Goods Sold	-	-	-	-
Gross Profit	1,85,610	2,20,608	2,44,447	2,62,455
Margin (%)	100.0	100.0	100.0	100.0
Employee Cost	6,890	7,510	6,759	7,165
Other Expenses	-	-	-	-
EBITDA	88,470	1,12,242	1,28,627	1,30,078
YoY gr. (%)	(17.1)	26.9	14.6	1.1
Margin (%)	47.7	50.9	52.6	49.6
Depreciation and Amortization	22,790	24,999	26,643	28,287
EBIT	65,680	87,243	1,01,984	1,01,791
Margin (%)	35.4	39.5	41.7	38.8
Net Interest	1,120	1,300	1,300	1,300
Other Income	19,340	17,038	18,784	20,198
Profit Before Tax	83,900	1,02,982	1,19,468	1,20,689
Margin (%)	45.2	46.7	48.9	46.0
Total Tax	15,850	20,617	23,918	24,162
Effective tax rate (%)	18.9	20.0	20.0	20.0
Profit after tax	68,050	82,364	95,550	96,527
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	68,050	82,364	95,550	96,527
YoY gr. (%)	(14.5)	21.0	16.0	1.0
Margin (%)	36.7	37.3	39.1	36.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	68,050	82,364	95,550	96,527
YoY gr. (%)	(14.5)	21.0	16.0	1.0
Margin (%)	36.7	37.3	39.1	36.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	68,050	82,364	95,550	96,527
Equity Shares O/s (m)	4,225	4,225	4,225	4,225
EPS (Rs)	16.1	19.5	22.6	22.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	2,96,170	3,16,170	3,36,170	3,56,170
Tangibles	2,96,170	3,16,170	3,36,170	3,56,170
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,31,480	1,56,479	1,83,122	2,11,409
Tangibles	1,31,480	1,56,479	1,83,122	2,11,409
Intangibles	-	-	-	-
Net fixed assets	1,64,690	1,59,691	1,53,048	1,44,761
Tangibles	1,64,690	1,59,691	1,53,048	1,44,761
Intangibles	-	-	-	-
Capital Work In Progress	27,060	31,560	37,310	34,310
Goodwill	-	-	-	-
Non-Current Investments	130	130	130	130
Net Deferred tax assets	18,220	15,131	11,547	7,926
Other Non-Current Assets	11,520	11,520	11,520	11,520
Current Assets				
Investments	2,03,290	2,03,290	2,03,290	2,03,290
Inventories	18,350	17,762	19,820	21,300
Trade receivables	4,010	2,368	2,643	2,840
Cash & Bank Balance	19,180	22,633	37,056	63,333
Other Current Assets	60	60	60	60
Total Assets	4,69,750	4,67,385	4,79,663	4,92,710
Equity				
Equity Share Capital	8,450	8,450	8,450	8,450
Other Equity	3,94,650	3,87,015	3,96,570	4,06,223
Total Networkth	4,03,100	3,95,465	4,05,020	4,14,673
Non-Current Liabilities				
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
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	14,880	16,578	16,517	17,750
Other current liabilities	33,140	36,212	38,496	40,157
Total Equity & Liabilities	4,69,750	4,67,385	4,79,663	4,92,710

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	83,900	1,02,982	1,19,468	1,20,689
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	17,038	18,784	20,198
Add. Other	(19,080)	(17,038)	(18,784)	(20,198)
Op. profit before WC changes	88,730	1,12,242	1,28,627	1,30,078
Net Changes-WC	(11,170)	7,500	390	1,717
Direct tax	(11,350)	(17,528)	(20,334)	(20,542)
Net cash from Op. activities	66,210	1,02,214	1,08,684	1,11,253
Capital expenditures	(36,180)	(24,500)	(25,750)	(17,000)
Interest / Dividend Income	5,190	17,038	18,784	20,198
Others	4,510	-	-	-
Net Cash from Inv. activities	(26,480)	(7,462)	(6,966)	3,198
Issue of share cap. / premium	-	-	-	-
Debt changes	(19,280)	-	-	-
Dividend paid	-	(89,999)	(85,995)	(86,874)
Interest paid	(1,700)	(1,300)	(1,300)	(1,300)
Others	-	-	-	-
Net cash from Fin. activities	(20,980)	(91,299)	(87,295)	(88,174)
Net change in cash	18,750	3,453	14,422	26,277
Free Cash Flow	30,030	77,714	82,934	94,253

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	43,910	39,890	56,600	60,330
YoY gr. (%)	(20.0)	(20.0)	25.5	29.1
Raw Material Expenses	(1,000)	1,670	1,420	250
Gross Profit	44,910	38,220	55,180	60,080
Margin (%)	102.3	95.8	97.5	99.6
EBITDA	19,640	15,760	29,520	32,690
YoY gr. (%)	(29.6)	(36.4)	39.4	42.8
Margin (%)	44.7	39.5	52.2	54.2
Depreciation / Depletion	5,530	5,440	6,520	6,390
EBIT	14,110	10,320	23,000	26,300
Margin (%)	32.1	25.9	40.6	43.6
Net Interest	160	520	680	1,350
Other Income	4,700	6,840	3,900	4,500
Profit before Tax	18,650	16,640	26,220	29,450
Margin (%)	42.5	41.7	46.3	48.8
Total Tax	5,260	3,050	6,820	7,450
Effective tax rate (%)	28.2	18.3	26.0	25.3
Profit after Tax	13,390	13,590	19,400	22,000
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	13,390	13,590	19,400	22,000
YoY gr. (%)	(33.4)	(23.0)	(6.8)	35.8
Margin (%)	30.5	34.1	34.3	36.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	13,390	13,590	19,400	22,000
YoY gr. (%)	(33.4)	(23.0)	(6.8)	35.8
Margin (%)	30.5	34.1	34.3	36.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,390	13,590	19,400	22,000
Avg. Shares O/s (m)	4,225	4,225	4,225	4,225
EPS (Rs)	3.2	3.2	4.6	5.2

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	16.1	19.5	22.6	22.8
CEPS	21.5	25.4	28.9	29.5
BVPS	95.4	93.6	95.9	98.1
FCF	7.1	18.4	19.6	22.3
DPS	16.5	21.3	20.4	20.6
Return Ratio(%)				
RoCE	17.0	21.5	25.1	24.5
ROIC	32.7	38.9	49.1	54.5
RoE	18.4	20.6	23.9	23.6
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.6)	(0.6)	(0.6)
Net Working Capital (Days)	15	6	9	9
Valuation(x)				
PER	18.4	15.2	13.1	13.0
P/B	3.1	3.2	3.1	3.0
P/CEPS	13.8	11.7	10.2	10.0
EV/EBITDA	11.7	9.2	7.9	7.6
EV/Sales	5.6	4.7	4.2	3.8
Dividend Yield (%)	5.6	7.2	6.9	6.9

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Mined Zinc metal prod-MIC tns	7,20,062	7,80,373	8,44,133	9,56,340
Mined Lead metal prod-MIC tns	1,97,040	2,05,926	2,20,651	2,55,492
Total Mines metal-MIC tns	9,17,102	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	1,91,249	2,04,862	2,37,374
Total Refined metal-tns	8,60,000	9,41,969	10,16,918	11,57,374
Concentrate sales vol (MIC tns)	6,537			
Silver Sales Vol. (kg)	5,86,000	6,46,545	6,92,453	8,02,644
Zinc (US\$)-LME / tonne	2,407	2,407	2,500	2,400
Lead(US\$)-LME / tonne	1,950	1,853	1,875	1,800
Silver (Rs / Kg)	42,395	57,000	53,900	52,500
Cost per tonne of Refined metal (Zn+Pb)	1,12,953	1,15,042	1,13,893	1,14,377

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Jan-21	Reduce	262	291
2	21-Oct-20	Hold	235	223
3	09-Oct-20	Accumulate	233	205
4	22-Jul-20	Accumulate	200	183
5	10-Jul-20	Accumulate	195	193
6	22-May-20	Accumulate	195	169
7	20-Apr-20	Hold	200	175

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,870	1,761
2	Ambuja Cement	BUY	285	270
3	Coal India	Hold	143	147
4	Dalmia Bharat	BUY	1,480	1,204
5	Heidelberg Cement India	Hold	228	236
6	Hindalco Industries	BUY	305	264
7	Hindustan Zinc	Reduce	262	291
8	Jindal Steel & Power	BUY	400	294
9	JK Lakshmi Cement	BUY	425	354
10	JSW Steel	Reduce	380	400
11	NMDC	BUY	145	127
12	Shree Cement	Reduce	23,401	25,813
13	Steel Authority of India	Reduce	66	76
14	Tata Steel	Hold	745	695
15	The Ramco Cements	Reduce	807	852
16	Ultratech Cement	BUY	6,100	5,592

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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