

July 23, 2021

Operationally in line performance...

About the stock: Hindustan Zinc (HZL) is one of the world's largest and India's only integrated producer of zinc-lead and silver.

- World's second largest zinc-lead miner and one of the lowest-cost producers of zinc globally
- HZL is the largest primary zinc producer in India, with 77% market share including alloys and 80% market share without alloys

Q1FY22 Results: HZL reported a steady operational performance in Q1FY22.

- Reported total operating income of ₹ 6531 crore, up 15% YoY but down 6% QoQ, broadly in line with our estimate of ₹ 6570 crore
- EBITDA was at of ₹ 3558 crore, up 126% YoY but down 8% QoQ, in line with our estimate of ₹ 3568 crore
- During the quarter, HZL reported exceptional expense to the tune of ₹ 134 crore. Hence, ensuing PAT came in at ₹ 1983 crore, up 46% YoY but down 20% QoQ (our estimate ₹ 2198 crore)

What should investors do? Hindustan Zinc's share has given a return of ~59% in the last 18 months (from ~₹ 209 in January 2020 to ~₹ 333 levels in July 2021).

- We retain our HOLD rating on the stock

Target Price and Valuation: We value HZL at ₹ 340 i.e. 7x FY23E EV/EBITDA

Key triggers for future price performance:

- We expect topline and EBITDA CAGR of 16% and 20%, respectively, in FY21-23E
- During FY21-23E, we expect zinc and lead sales volume to register a CAGR of ~9.7% and ~9.9%, respectively
- We expect EBITDA margins to hover in ~54-55% range over the next couple of years

Alternate Stock Idea: In our non-ferrous metal sector coverage, we like Hindalco.

- Healthy performance of overseas subsidiary Novelis, augurs well for Hindalco's consolidated performance
- BUY with a target price of ₹ 475



HINDUSTAN ZINC

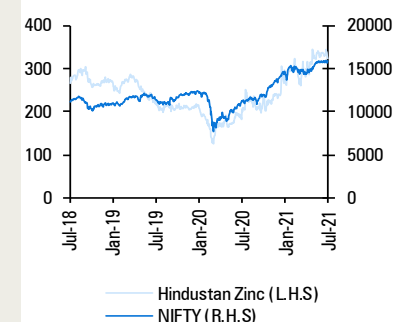
Particulars

	₹ Crore
Market Capitalization	1,40,598
Total Debt (Q1FY22)	6,653
Cash & Investments. (Q1FY22)	23,902
EV	1,23,349
52 week H/L (₹)	362 / 197
Equity capital	845.1
Face value (₹)	₹ 2

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	64.9	64.9	64.9	64.9
FPIs	1.0	1.1	1.1	1.0
DIs	2.6	2.6	2.6	2.6
Public	31.5	31.4	31.4	31.5
Total	100	100	100	100

Price Chart



Key Risks & Event

- In US\$ terms, zinc cost of production before royalty (CoP) in Q1FY22 was US\$1070/tonne, up 5% YoY, 13% QoQ
- Key risks: (i) Notable rise in zinc CoP (ii) Significant rise in zinc, lead and silver prices

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Key Financial Summary

(₹ crore)	FY18	FY19	FY20	FY21	CAGR (FY16-FY21 in %)	FY22E	FY23E	CAGR (FY21E-FY23E in %)
Total Operating income	22084	21118	18561	22629	10	27471	30423	16
EBITDA	12272	10670	8847	11672	12	14940	16847	20
EBITDA Margin (%)	55.6	50.5	47.7	51.6		54.4	55.4	
Net Profit	9276	7956	6805	7980	0	9424	10809	16
Diluted EPS (₹)	22.0	18.8	16.1	18.9		22.3	25.6	
P/E	15.2	17.7	20.7	17.6		14.9	13.0	
RoE (%)	25.8	23.7	16.9	24.7		26.3	26.0	
RoCE (%)	34.0	29.2	20.8	27.8		33.1	37.8	

Source: Company, ICICI Direct Research

Key takeaways from conference call

Q1FY22 Results

- For Q1FY22, zinc sales volumes came in at ~187000 tonnes (up 15% YoY, down 6% QoQ, broadly in line with our estimate of 190000 tonnes). Lead sales volume came in at ~49000 tonnes (up 9% YoY, down 21% QoQ, in line with our estimate of 50000 tonnes) while silver sales volume came in at ~160000 kg (up 10% YoY, down 21% QoQ, lower than our estimate of 170000 kg)
- In US\$ terms, zinc cost of production before royalty (CoP) during Q1FY22 was at US\$1070/tonne, up 5% YoY, 13% QoQ. In rupee terms, zinc CoP (before royalty) during Q1FY22 was at ₹ 78952/tonne (up 3% YoY, 14% QoQ). The increase in CoP is primarily due to a surge in input commodity prices
- During the quarter, HZL reported exceptional expense to the tune of ₹ 134 crore. Exceptional expense of ₹ 134 crore represents amount charged in respect of settlement of entry tax dispute under Amnesty scheme launched by the Government of Rajasthan
- As on June 30, 2021, HZL's gross investments and cash and cash equivalents were ₹ 23902 crore compared to ₹ 22308 crore at the end of fourth quarter (Q4FY21). The company's net investments and cash and cash equivalents at the end of June 30, 2021 was ₹ 17249 crore compared to ₹ 15130 crore at the end of fourth quarter (Q4FY21) and was invested in high quality debt instruments

Q1FY22 Earnings conference call highlights

- For FY22, HZL has maintained its guidance both on the operational and financial metrics. The maintained guidance is as follows -
 - Both mined metal and finished metal production in FY22 is expected to be ~1025-1050 KT each
 - FY22 saleable silver production is projected at ~ 720 tonnes
 - Zinc cost of production before royalty (CoP) in FY22 is expected to remain below US\$1000/tonne
 - The project capex for FY22 is expected to be ~US\$ 100 million
- Covid-19 restrictions including stringent visa guidelines for Chinese nationals continued during the quarter, which resulted in a delay in the commissioning of the Fumer plant at Chanderiya. The company expects Fumer commissioning to be completed by end of November 2021
- On a sequential basis, there was an increase in coal and diesel prices, cement prices as well as higher power costs coupled with lower volumes leading to an upward pressure on CoP. This was partly offset by higher sulphuric acid credits and lower met coal cost
- In light of the rising input commodity prices, the company is closely monitoring the situation and taking all necessary actions to combat it

Peer comparison

Exhibit 1: Peer Comparison

	CMP			M Cap (₹ Cr)	Topline (in ₹ crore)			EBITDA (in ₹ crore)			PAT (in ₹ crore)			P/E (x)			EV/EBITDA (x)		
	(₹)	(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Hindalco	395	475	Buy	88539	131985	169364	175144	17536	21698	22616	5674	9470	10167	15.6	9.3	8.7	7.8	6.1	5.4
Hindustan Zinc	333	340	Hold	140598	22629	27471	30423	12272	14940	16847	7980	9424	10809	17.6	14.9	13.0	10.8	8.1	6.8

Source: Company, ICICI Direct Research

Hindustan Zinc trades at a premium valuation to its peer on the back of superior return ratio profile.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Operating Income	6531	6570	3989	63.7	6947	-6.0	Topline came in broadly in line with our estimates
Other Income	349	245	684	-49.0	295	18.3	Other income came in higher than our estimates
Total Operating expense	2973	3002	2413	23.2	3072	-3.2	
EBITDA	3558	3568	1576	125.8	3875	-8.2	EBITDA came in broadly in line with our estimates
EBITDA Margin (%)	54.5	54.3	39.5	1497 bps	55.8	-130 bps	EBITDA margin came in line with our estimates
Depreciation	658	725	544	21.0	696	-5.5	
Finance cost	92	150	52	76.9	131	-29.8	
Exceptional item	-134	0	0	NA	-	NA	
PBT	3023	2938	1664	81.7	3343	-9.6	
Tax Outgo	1040	740	305	241.0	862	20.6	
PAT	1983	2198	1359	45.9	2481	-20.1	PAT came in lower than our estimates
Key Metrics							
Zinc sales (tonne)	187000	190000	163000	14.7	198000	-5.6	Zinc sales volume came in broadly in line our estimate
Lead sales (tonne)	49000	50000	45000	8.9	62000	-21.0	Lead sales volume came in broadly in line our estimate
Silver sales (kg)	160000	170000	146000	9.6	203000	-21.2	Silver sales volume came in lower than our estimates

Source: Company, ICICI Direct Research

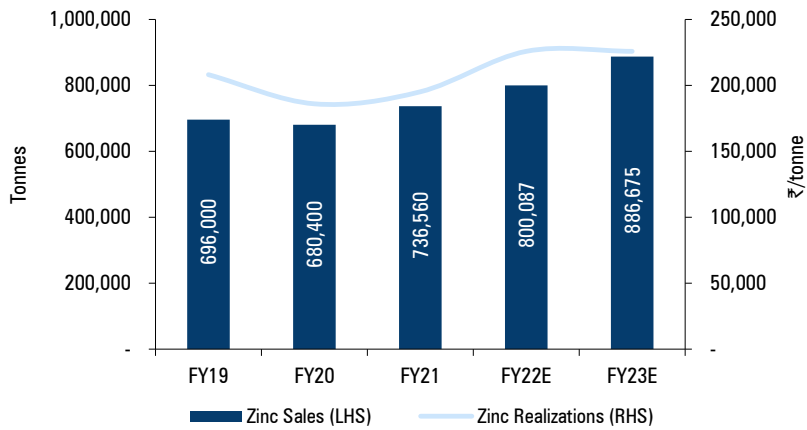
Exhibit 3: Change in estimates

	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
(₹ Crore)							
Total Op. Income	27,288	27,471	0.7	30,230	30,423	0.6	Marginally upward revised topline estimate on the back of upward revision of lead realisation
EBITDA	14,794	14,940	1.0	16,693	16,847	0.9	
EBITDA Margin (%)	54.2	54.4	17 bps	55.2	55.4	15 bps	
PAT	9,954	9,424	-5.3	11,465	10,809	-5.7	PAT revised downwards of the back upward revision of tax rate assumption

Source: Company, ICICI Direct Research

Financial story in charts

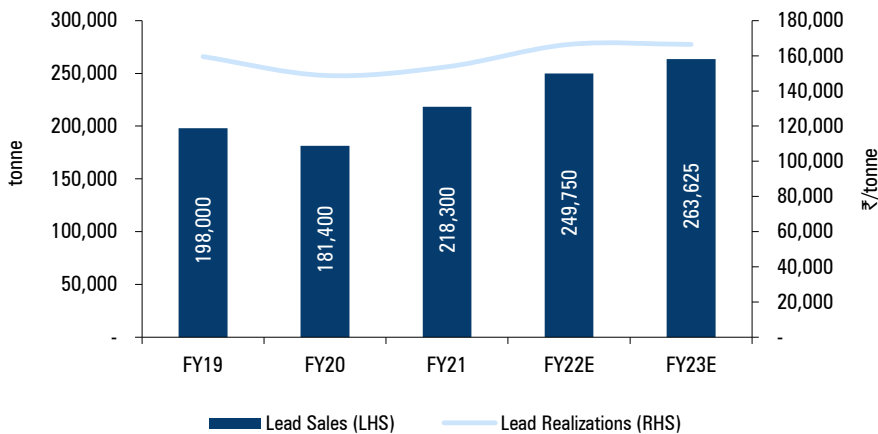
Exhibit 4: Zinc sales volume and realisation trend....



Zinc sales volume is expected to grow at a CAGR of ~9.7% during FY21-23E

Source: Company, ICICI Direct Research

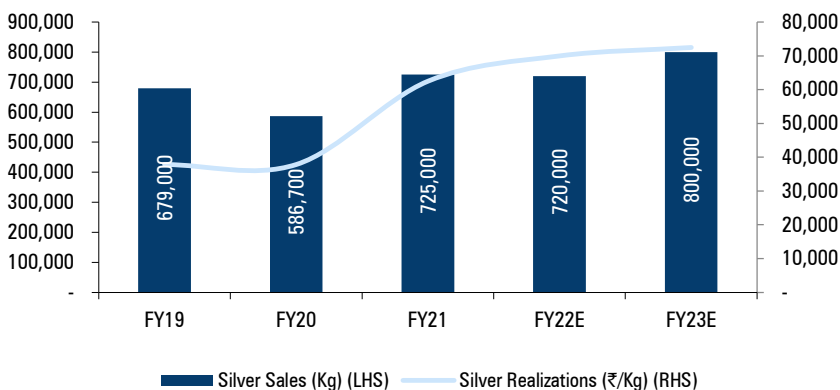
Exhibit 5: Lead sales volume and realisation trend....



Lead sales volume is expected to grow at a CAGR of ~9.9% during FY21-23E

Source: Company, ICICI Direct Research

Exhibit 6: Silver sales volume and realisation....



Silver sales volume is expected to grow at a CAGR of ~4% during FY21-23E

Source: Company, ICICI Direct Research

Exhibit 7: 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	14.9	9.5	25.8	34.0
FY19	21118	-4.4	18.8	-14.2	17.4	11.4	23.7	29.2
FY20	18561	-12.1	16.1	-14.5	20.3	13.2	16.9	20.8
FY21	22629	21.9	18.9	17.3	17.3	10.5	24.7	27.8
FY22E	27471	21.4	22.3	18.1	14.7	8.0	26.3	33.1
FY23E	30423	10.7	25.6	14.7	12.8	6.7	26.0	37.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	18561	22629	27471	30423
Growth (%)	-12	22	21	11
EBITDA	8,847	11,672	14,940	16,847
Growth (%)	-17	32	28	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	13,634	15,475
Exceptional Item	0	0	-134	0
Total Tax	1,585	2,594	4,076	4,666
PAT	6,805	7,980	9,424	10,809
Growth (%)	-14	17	18	15
EPS (₹)	16.1	18.9	22.3	25.6

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	6,805	7,980	9,424	10,809
Add: Depreciation	2,279	2,531	2,656	2,862
(Inc)/dec in Current Assets	145	1,106	-570	-404
Inc/(dec) in CL and Provisions	-261	182	818	700
Others	0	0	0	0
CF from operating activities	8,968	11,799	12,327	13,967
(Inc)/dec in Investments	-841	7,372	-4,000	178
(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	-6,250	-2,322
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-1,927	6,567	-1,000	-6,178
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	-6,860	-11,248
Net Cash flow	1,897	7,460	-783	397
Opening Cash	23	1,918	9,376	8,593
Closing Cash	1,918	9,376	8,593	8,990

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	845	845	845	845
Reserve and Surplus	39,465	31,468	35,032	40,771
Total Shareholders funds	40,310	32,313	35,877	41,616
Total Debt	611	7,178	6,178	0
Total Liabilities	40,921	39,491	42,055	41,616
Assets				
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	16,957	16,779
Inventory	1,835	1,425	1,555	1,745
Trade receivables	401	406	596	660
Other Current Assets	3,534	2,833	3,083	3,233
Cash	1,918	9,376	8,593	8,990
Total Current Assets	7,689	14,040	13,827	14,628
Trade payables	1,488	1,545	1,863	2,063
Other current liabilities	4,566	4,691	5,191	5,691
Provisions	0	0	0	0
Current Liabilities & Prov	6,054	6,236	7,054	7,754
Net Current Assets	1,634	7,804	6,774	6,875
Application of Funds	40,921	39,491	42,055	41,616

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	16.1	18.9	22.3	25.6
Cash EPS	21.5	24.9	28.6	32.4
BV	95.4	76.5	84.9	98.5
DPS	16.5	21.3	12.0	12.0
Cash Per Share (Incl Invst)	52.7	52.9	60.5	61.0
Operating Ratios (%)				
EBITDA Margin	47.7	51.6	54.4	55.4
PBT / Total Op. income	45.2	46.7	49.6	50.9
PAT Margin	36.7	35.3	34.3	35.5
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	26.3	26.0
RoCE	20.8	27.8	33.1	37.8
Valuation Ratios (x)				
P/E	20.3	17.3	14.7	12.8
EV / EBITDA	13.2	10.5	8.0	6.7
EV / Net Sales	6.3	5.4	4.3	3.7
Market Cap / Sales	7.4	6.1	5.0	4.5
Price to Book Value	3.4	4.3	3.9	3.3
Solvency Ratios				
Debt/EBITDA	0.1	0.6	0.4	0.0
Debt / Equity	0.0	0.2	0.2	0.0
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 12: ICICI Direct coverage universe (Metals and Mining)

	CMP	TP		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Coal India	144	165	Hold	90877	20.6	25.1	27.7	7.1	5.9	5.3	4.1	3.9	3.9	42.3	43.1	41.2	34.8	36.7	35.5
Hindalco	395	475	Buy	83764	25.5	42.6	45.7	15.6	9.3	8.7	7.8	6.1	5.4	8.8	11.7	12.0	8.5	13.4	12.7
Hind Zinc	333	340	Hold	140598	18.9	22.3	25.6	17.6	14.9	13.0	10.8	8.1	6.8	27.8	33.1	37.8	24.7	26.3	26.0
JSW Stee	720	800	Buy	162896	32.9	76.0	70.2	20.6	8.9	9.7	10.7	6.5	6.7	13.8	21.4	17.6	17.0	28.3	20.8
NMDC	174	210	Buy	52077	21.3	24.7	9.5	8.3	7.2	9.2	5.5	4.6	5.3	27.0	24.9	17.2	21.0	20.5	14.6
Ratnamani	2043	2400	Buy	9652	59.0	76.2	96.0	33.9	26.2	20.8	22.1	16.1	13.0	15.7	19.3	20.1	13.9	15.7	16.9
Graphite Ind.	662	800	Buy	12388	-2.0	48.0	80.0	NA	13.1	7.9	NA	8.5	4.7	-5.4	20.0	28.1	-0.7	18.1	24.8
Tata Steel	1282	1500	Buy	134858	77.1	189.3	152.9	14.8	6.0	7.5	7.2	4.2	4.5	13.1	23.2	18.4	12.4	23.6	15.7
Sail	127	160	Buy	53697	9.2	26.4	21.2	14.2	4.9	6.1	7.0	4.1	4.8	10.9	18.4	13.9	8.9	20.7	14.7

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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