

Hindustan Zinc

Estimate change



TP change



Rating change



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Bloomberg	HZ IN
Equity Shares (m)	4,225
M.Cap.(INRb)/(USDb)	1195.8 / 15
52-Week Range (INR)	408 / 242
1, 6, 12 Rel. Per (%)	1/-8/-22
12M Avg Val (INR M)	419

Financials & valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	294.4	326.1	335.7
EBITDA	162.3	171.2	178.9
EBITDA margin	55.1	52.5	53.3
NP	97.6	105.2	110.1
Adj. EPS (INR)	23.1	24.9	26.0
EPS Gr(%)	22.3	7.8	4.6
BV/Sh. (INR)	81.1	76.0	72.1
Ratios	-0.5	-0.5	-0.6

Net D:E

RoE (%)	29.3	31.7	35.2
RoCE (%)	38.3	41.4	43.7
Payout (%)	77.9	120.4	115.2

Valuations

P/E (x)	12.2	11.4	10.9
P/BV	3.5	3.7	3.9
EV/EBITDA (x)	6.3	6.0	5.7
Div. Yield (%)	6.4	10.6	10.6
FCF Yield (%)	8.1	9.4	9.2

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	64.9	64.9	64.9
DII	32.5	32.5	32.2
FII	0.9	0.8	1.0
Others	1.7	1.8	1.9

FII Includes depository receipts

CMP: INR283
TP: INR245 (-13%)
Neutral
In-line results; FY23 guidance maintained, albeit, challenging

No surprises in 1QFY23, again

- Hindustan Zinc (HZ)'s revenue was in line at INR94b (up 44% YoY and 7% QoQ) in 1QFY23, led by higher LME prices but partly offset by flat lead prices, repeating the trend of 4QFY22.
- EBITDA stood in line at INR51b (up 44% YoY and 4% QoQ). Power and fuel costs were at INR9b, up 15% QoQ, led by higher coal prices as FSA materialization was only 8% during the quarter and the company continued to import the balance coal from Australia and Indonesia.
- HZ's PAT grew 46% YoY and 6% QoQ to INR31b, in line with our estimate of INR32b, as lower-than-estimated other income was offset by lower-than-estimated finance cost.
- The company used about 50% of the hedges for FY23 during 1QFY23 and the balance is likely to be exhausted in 2QFY23E. The effective realization for 2HFY23E is likely to be lower as zinc prices have also corrected sharply.
- Refined zinc sales declined 4% QoQ to 206kt while refined lead sales rose 10% QoQ to 54kt. Silver sales, at 177 tonnes, rose 9% QoQ.

Management reiterated its FY23 guidance despite steep cost pressure

- The management reiterated its FY23 production guidance:
 - Mined metal production to be marginally higher at 1,050-1,075kt
 - Silver production to be at 700-725t (v/s 647t in FY22)
- However, it also reiterated the cost of production (ex-royalty) guidance at USD1,125-1,175/t range (v/s USD1,264/t in 1QFY23). This implies about 13% lower cost of production for the remaining of FY23. Given the steep cost of coal, which has not reduced meaningfully in the near term, we believe the guidance on cost of production could be raised in the subsequent quarters.
- Project capex guidance also remains constant at USD125-150m, along with maintenance capex guidance at USD350-400m.
- The management highlighted that it plans to reduce the cost of power structurally by replacing the coal/fossil-based power with renewable power. It is already looking at 200MW of renewable power by FY24E. We await further details of the company under which this 200MW renewable power will be set up along with the price and other terms of contract, as it is not being set up under HZ.

Valuation and view

- Notwithstanding severe cost pressure from coal, the management has not increased the cost guidance from USD1,125-1,150/t for FY23E, despite the CoP being at USD1,264/t in 1QFY23.
- HZ expects more coal from the FSA as it has over 1mt due under the FSA commitments. We keenly await further update on this as the FSA coal from Coal India is the key to cost reduction at HZ.

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- The company continues to operate in the first quartile of the global cash cost curve but the near-term cost headwinds are unlikely to recede. HZ is now trying to contain the costs to USD1,150/t v/s its target of bringing down the costs to sub-USD1,000/t.
- Its fumer project continues to be delayed by more than two years now due to external factors (visa issues for Chinese experts).
- The growth from 1-1.2mt remains elusive as HZ remains focused on delivering 1mt annually on a sustainable basis.
- We have cut our FY23 LME assumption for zinc to USD3,486/t from USD3,571/t earlier indicating a marginal 2% reduction. However, we raise our net sales assumption slightly by 1% to factor in 21% zinc volumes hedged at USD4,100/t.
- Accordingly, we marginally increase our FY23 net sales estimates by 1% but reduce our net profit estimates by 2%, factoring in lower other income while keeping EBITDA unchanged. Our TP remains unchanged at INR245 based on 5x FY23E EV/EBITDA. We note that the company continues to deliver high RoE but lacks volume growth, which is critical for a meaningful re-rating. We also await further details on the arrangement for renewable power.
- Management highlighted that demand for zinc has been adversely impacted globally due to several factors including: a) high inflationary environment, b) resurgence of Covid cases in China, c) strengthening of the USD and d) Russia-Ukraine war, leading to a sharp correction in the commodity prices.
- Resurgence in economic activity in China remains central to any positive movement in commodities. With China continuing to battle Covid while rest of the world battles inflation, we believe there are no significant positive triggers for HZ. Hence, we maintain our Neutral rating on the stock.

Quarterly performance (INR b)

Y/E March	FY22				FY23E				FY22	FY23E	FY23	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	65.3	61.2	79.9	88.0	93.9	72.6	78.6	81.0	294.4	326.1	89.7	4.7
Change (YoY %)	63.7	8.2	32.4	26.6	43.7	18.6	-1.6	-7.9	30.1	10.8	37.3	
Change (QoQ %)	-6.0	-6.3	30.5	10.1	6.7	-22.7	8.3	3.0			1.9	
EBITDA	35.6	33.4	43.7	49.6	51.4	36.7	40.6	42.5	162.3	171.2	50.0	2.8
Change (YoY %)	125.8	13.0	33.7	28.0	44.4	9.9	-7.1	-14.2	39.0	5.5	40.5	
Change (QoQ %)	-8.3	-6.3	31.0	13.5	3.5	-28.6	10.8	4.8			0.7	
As % of Net Sales	54.5	54.5	54.7	56.4	54.7	50.5	51.6	52.5	55.1	52.5	1.9	
Finance cost	0.9	0.8	0.5	0.7	0.4	0.7	0.7	0.6	2.9	2.4	1.0	
DD&A	6.6	7.0	7.4	8.2	7.3	7.0	7.6	7.8	29.2	29.7	7.0	4.9
Other Income	3.5	3.1	2.8	2.8	3.1	3.6	3.6	3.6	12.2	13.8	3.6	-13.3
PBT (before EO item)	31.6	28.6	38.6	43.6	46.7	32.5	35.9	37.8	142.3	152.9	45.6	2.4
EO exp. (income)	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3	0.0	0.0	
PBT	30.2	28.6	38.6	43.6	46.7	32.5	35.9	37.8	141.0	152.9	45.6	2.4
Total Tax	10.4	8.5	11.6	14.3	15.8	9.7	10.8	11.3	44.7	47.7	13.7	15.5
% Tax	34.4	29.5	30.0	32.8	33.8	30.0	30.0	30.0	31.7	31.2	30.0	
Reported PAT	19.8	20.2	27.0	29.3	30.9	22.7	25.1	26.4	96.3	105	31.9	-3.1
Adjusted PAT	21.2	20.2	27.0	29.3	30.9	22.7	25.1	26.4	97.6	105	31.9	-3.1
Change (YoY %)	55.8	4.0	22.8	17.9	46.1	12.8	-6.9	-9.7	22.3	7.8	50.8	
Change (QoQ %)	-14.8	-4.7	33.9	8.4	5.6	-26.4	10.5	5.1			9.0	

Source: Company, MOFSL

Operational performance

Y/E March	FY22				FY23E				FY22	FY23E	FY23	v/s Est.
	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE				
Mine prodn. (kt)	221	249	252	295	252	243	260	268	1,017	1,023	252	0.0
Sales												
Zinc refined (kt)	187	164	212	214	206	184	199	205	777	793	206	0.0
Lead refined (kt)	49	47	47	49	54	52	56	57	192	219	54	0.0
Silver (tonnes)	160	152	173	162	177	166	178	183	647	704	174	1.5
LME/Realizations												
Zinc LME (USD/t)	2,913	2,991	3,364	3,754	3,915	3,200	3,400	3,400	3,257	3,486	3,945	-0.8
Premium (USD/t)	196	240	205	226	407	400	225	225	250	313	225	81.0
Zinc Realization (USD/t)	3,109	3,231	3,569	3,980	4,322	3,600	3,625	3,625	3,507	3,799	4,170	3.7
Lead LME (USD/t)	2,123	2,341	2,331	2,335	2,199	2,115	1,951	1,947	2,285	2,054	2,203	-0.2
Premium (USD/t)	161	200	226	213	174	200	200	200	197	185	200	-13.0
Lead Realization (USD/t)	2,284	2,541	2,557	2,548	2,373	2,315	2,151	2,147	2,482	2,239	2,403	-1.2
Silver LME (INR/t)	69,700	64,950	62,755	63,667	61,464	57,408	58,274	58,879	65,268	59,027	61,545	-0.1
Premium (INR/t)	-575	-279	-269	283	1,110	0	0	0	0	0	0	na
Silver Realization (INR/t)	69,125	64,671	62,486	63,951	62,574	57,408	58,274	58,879	65,268	59,027	61,545	1.7



Highlights from the management commentary

Growth projects – a new line of capex

- While the acquisition of Zinc International business of the parent company remains under discussion, HZ highlighted that the decision will be taken in due course of time and will be subject to several approvals. Management also highlighted that nothing concrete has been discussed so far.
- The new proposal discussed by the management was regarding 0.5mt fertilizer plant with a capex of INR13-14b to be spent over the next 15-18 months. The fertilizer plant will absorb the sulphuric acid and other byproducts emanating from the zinc smelting process and will be sold in the domestic market. This should help improve the byproduct realization for HZ.
- Management also announced the setting up of a 160kt roaster plant at a capex of around INR900m over the next one and half years.
- The option of setting up a custom smelter at Gujarat is not being actively evaluated.

Coal costs continue to rise

- HZ has been sourcing coal from Australia and Indonesia. The company has not sourced any coal from Russia so far, neither has it indicated any plans for the same.
- Linkage coal was about 8% compared with around 2% in 4QFY22. HZ has about 1mt of FSA coal to be delivered in FY23E.
- Management expects Coal India to deliver the remaining 1mt of coal (from FY22) during FY23, which will partly help it maintain its cost guidance for FY23.
- Coal and fuel costs currently account for 21% of the total CoP, v/s 15% in 1QFY23. We believe the same is likely to remain at elevated levels, unless Coal India delivers higher quantity of FSA coal.

Hedging zinc sales

- The management has started the practice of hedging part of its sales volume from FY23E.
- It has hedged 21% of its FY23E sales volumes at USD4,100/t.
- HZ has used about 11% of the hedges booked at USD4,100/t in 1QFY23 and balance 10% is likely to be consumed in 2QFY23.
- We like the company's policy to hedge Zinc at higher LME and agree to its view that the current prices do not offer remunerative hedge.

Gujarat custom smelter expansion makes no progress

- HZ has not made much headway in its custom smelter project in Gujarat. It has been unable to convene the Gram Sabha meeting needed to move ahead with the project.
- Once the same is complete, management will focus on other parts of the project that include land acquisition, placing orders for equipment, and applying for CTE (consent to establish).
- There is no further progress since the update in 4QFY22.

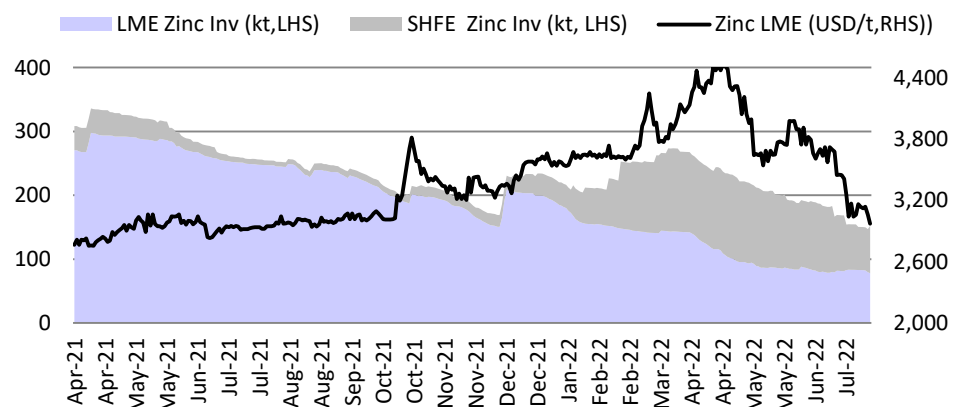
Renewable power – awaiting details

- While the management has been clear about getting 200MW renewable power by FY24, it did not confirm the rates at which it will buy that power.
- We believe setting up a solar/wind renewable power capacity of that scale should take at least two years including the time for land acquisition.
- The management further added that it is likely to expand its renewable power consumption to 500MW to support all future expansions.
- We cautiously await details of such long-term (~ 25yrs) PPA and details of the counterparty setting up the same.

Debt and cash

- Current gross cash and equivalents in its books is INR242b. Net cash balance is INR 214b.
- The company recently announced a dividend of INR21/share, which should result in a cash outflow of INR89b.
- Post-dividend payout, cash and equivalents in the books will be around INR156b.

Exhibit 1: LME Zinc prices have corrected 16% in 1Q and 13% since the start of 2QFY23



Source: Bloomberg, MOFSL

Exhibit 2: Silver price corrected 17% in 1Q and are down 5% since the beginning of 2QFY23

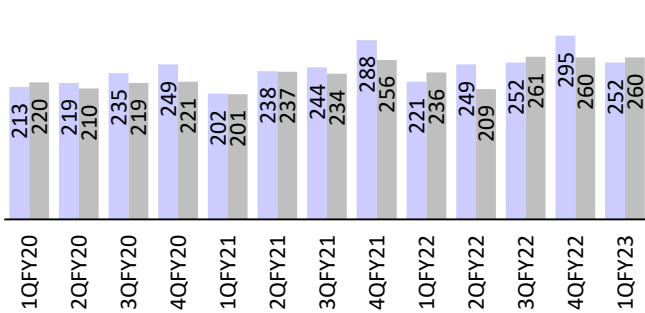


Source: Bloomberg, MOFSL

Story in charts

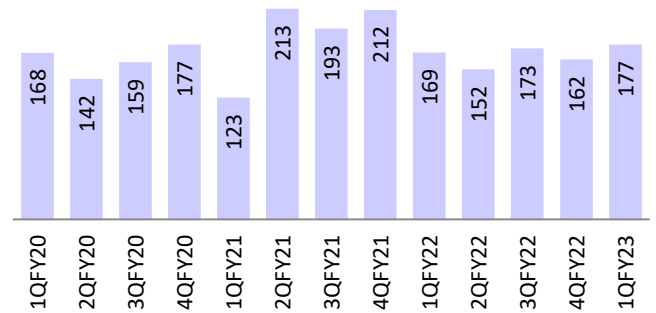
Exhibit 1: Mine production remains muted

Mine production - kt Refined metal production - kt



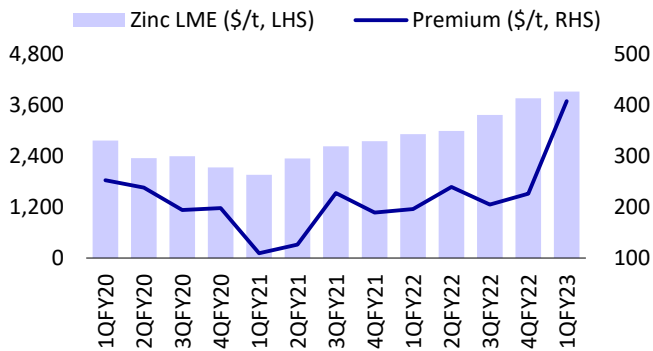
Source: Company, MOFSL

Exhibit 2: Silver production (t) also remains muted



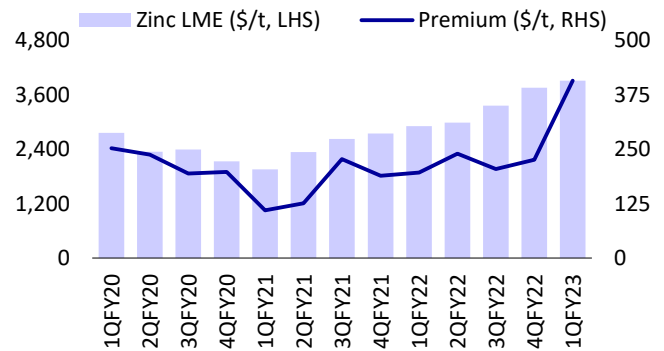
Source: Company, MOFSL

Exhibit 3: Zinc ASP has been driven by hedges, which will be exhausted in 2QFY23...



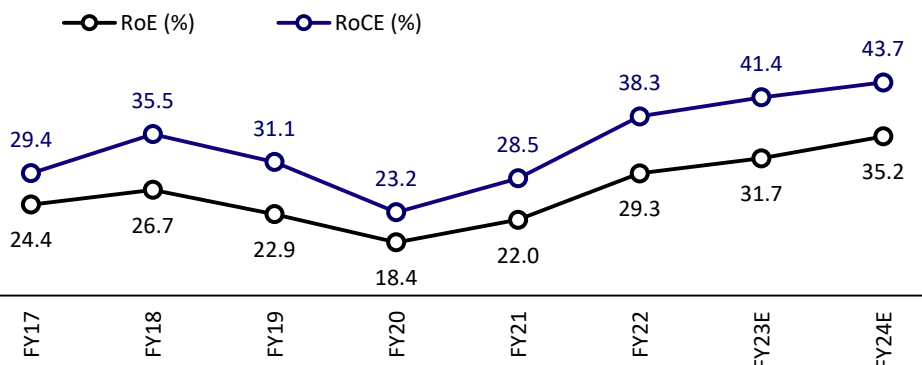
Source: Company, MOFSL

Exhibit 4: ...while costs have been structurally rising with no end in sight



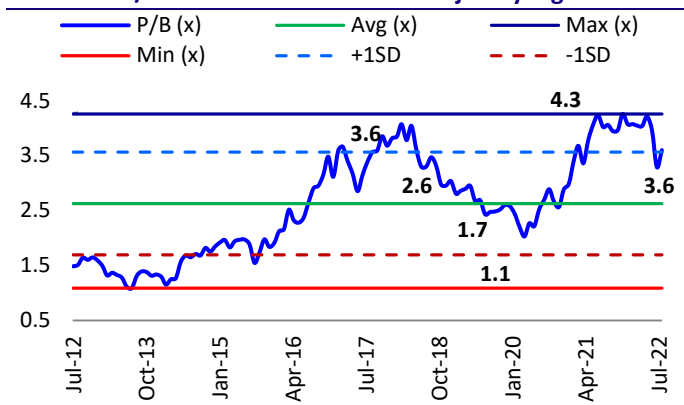
Source: Company, MOFSL

Exhibit 5: Volumes will continue to drive RoE, but valuations already factor in the same



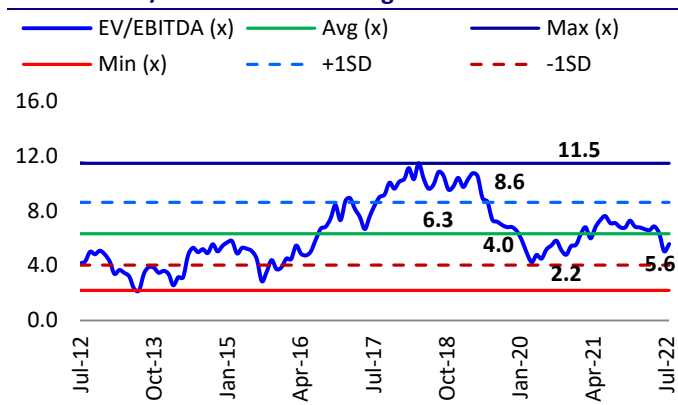
Source: MOFSL, Company

Exhibit 6: P/B ratio at elevated levels to justify high RoE



Source: MOFSL, Company

Exhibit 7: EV/EBITDA remains range bound



Source: MOFSL, Company

Exhibit 8: Changes in our assumptions and key financials

		FY23E			FY24E		
		New	Old	% change	New	Old	% change
Price assumptions (LME)							
Zinc	USD/t	3,486	3,571	-2%	3,295	3,295	0%
Lead	"	2,054	2,054	0%	1,906	1,906	0%
Silver	INR/kg	59,027	59,027	0%	58,855	58,855	0%
Sales volume assumptions							
Refined Zinc	kt	793	793	0%	879	879	0%
Refined Lead	kt	219	219	0%	260	260	0%
Silver	mt	704	702	0%	781	781	0%
Financial estimates							
Revenue	INR b	326	324	1%	336	336	0%
EBITDA	"	171	172	0%	179	180	-1%
Adj. PAT	"	105	108	-2%	110	112	-2%
EPS	INR/share	25	26	-2%	26	26	-2%

Source: MOFSL, Company

Exhibit 9: Global comparable valuation

Company	M-cap (USD m)	P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
		CY20/ FY21	CY21/ FY22	CY22/ FY23	CY20/ FY21	CY21/ FY22	CY22/ FY23	CY20/ FY21	CY21/ FY22	CY22/ FY23	CY20/ FY21	CY21/ FY22	CY22/ FY23
HZL	15,502	12.7	11.5	11.1	6.5	6.2	5.9	3.6	3.8	4.0	29.3	32.3	35.4
Korea Zinc	6,610	10.4	10.2	10.2	5.1	4.9	4.7	1.0	1.0	0.9	10.4	9.9	9.2
Teck	14,570	3.3	5.1	6.0	2.0	2.2	2.2	0.7	0.6	0.6	23.0	12.4	8.0

Source: MOFSL, Company, Bloomberg.

Exhibit 10: Valuation continues to remain elevated

	UoM	FY23E
EBITDA	INR b	171.2
EV/EBITDA multiple	x	5.0
Enterprise value	INR b	856
Add: Net cash	INR b	176
Equity value	INR b	1032
Shares outstanding	b	4.23
TP (INR/share)	INR/share	245

Source: MOFSL

Financials and valuations

Income Statement								INR b	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	
Net Sales	173	221	211	186	226	294	326	336	
Total Expenses	76	98	104	97	110	132	155	157	
EBITDA	97	123	107	88	117	162	171	179	
Depreciation	18	17	19	23	25	29	30	34	
EBIT	80	106	88	66	91	133	142	145	
Finance cost	2	3	1	1	4	3	2	3	
Other income	24	18	18	19	18	12	14	15	
PBT	102	121	105	84	106	142	153	157	
Tax	19	32	25	16	26	45	48	47	
Rate (%)	18.5	26.3	23.9	18.9	24.5	31.4	31.2	30.0	
PAT	83	89	80	68	80	98	105	110	
EO expense (Income)	0	-2	0	0	0	1	0	0	
PAT (after EO)	83	92	80	68	80	96	105	110	
Attrib. PAT (after MI and asso.)	83	89	80	68	80	98	105	110	
Change (YoY %)	-0.7	7.2	-10.8	-14.5	17.3	22.3	7.8	4.6	

Consolidated Balance Sheet								INR b	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	
Share Capital	8	8	8	8	8	8	8	8	
Reserves	300	351	328	395	315	334	313	296	
Net Worth	308	359	336	403	323	343	321	305	
Total Loans	79	0	25	6	65	28	21	14	
Deferred Tax Liability	-27	-22	-19	-18	-11	9	28	45	
Capital Employed	360	337	342	391	377	381	371	364	
Gross Block	165	195	249	288	317	352	383	422	
Less: Accum. Deprn.	65	82	101	124	149	178	208	242	
Net Fixed Assets	100	113	148	165	168	174	175	180	
Capital WIP	31	32	23	25	19	21	21	21	
WC. Assets	360	262	235	262	259	252	243	232	
Inventory	19	14	15	18	14	20	22	23	
Account Receivables	1	2	2	4	4	7	5	6	
Cash and Bank Balance	322	222	195	222	223	208	198	186	
Loans and advances	17	25	23	17	18	17	17	17	
WC. Liability and Prov.	131	70	63	61	69	66	68	69	
Trade payables	12	9	12	15	15	20	22	23	
Provisions and Others	119	61	51	46	54	46	46	46	
Net WC. Assets	229	192	172	201	190	186	175	163	
Appl. of Funds	360	337	342	391	377	381	371	364	

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	19.7	21.1	18.8	16.1	18.9	23.1	24.9	26.0
Cash EPS	23.9	25.1	23.3	21.5	24.9	30.0	31.9	34.0
BV/Share	72.9	85.0	79.5	95.4	76.5	81.1	76.0	72.1
DPS	29.4	8.0	20.0	0.0	37.8	18.0	30.0	30.0
Payout (%)	179.3	45.5	127.5	0.0	200.1	77.9	120.4	115.2
Valuation (x)								
P/E	14.4	13.4	15.0	17.6	15.0	12.2	11.4	10.9
Cash P/E	11.8	11.3	12.2	13.2	11.4	9.4	8.9	8.3
P/BV (incl.-goodwill)	3.9	3.3	3.6	3.0	3.7	3.5	3.7	3.9
EV/Sales	0.0	4.4	4.9	5.3	4.6	3.5	3.1	3.0
EV/EBITDA	0.0	7.9	9.6	11.1	8.9	6.3	6.0	5.7
Dividend Yield (%)	10.4	2.8	7.1	0.0	13.4	6.4	10.6	10.6
Return Ratios (%)								
EBITDA Margin	56.3	55.6	50.5	47.7	51.6	55.1	52.5	53.3
Net Profit Margin	48.1	40.4	37.7	36.7	35.3	33.2	32.3	32.8
RoE	24.4	26.7	22.9	18.4	22.0	29.3	31.7	35.2
RoCE (pre-tax)	29.4	35.5	31.1	23.2	28.5	38.3	41.4	43.7
RoIC (pre-tax)	465.8	137.9	67.0	41.6	56.7	81.5	82.0	82.8
Working Capital Ratios								
Fixed Asset Turnover (x)	1.7	2.1	1.6	1.2	1.4	1.7	1.9	1.9
Receivable (Days)	3	3	3	8	7	9	6	6
Inventory (Days)	41	23	27	36	23	24	25	25
Trade payable (Days)	25	16	20	29	25	25	25	25
Leverage Ratio (x)								
Current Ratio	2.8	3.7	3.7	4.3	3.7	3.8	3.6	3.4
Interest Coverage	51.6	43.7	90.4	75.9	28.4	50.1	63.8	48.6
Net Debt/EBITDA	-2.5	-1.8	-1.6	-2.4	-1.4	-1.1	-1.0	-1.0
Net Debt/Equity	-0.8	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6

Cash Flow Statement

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EBITDA	97	123	107	88	117	162	171	179
Non-cash exp./ (income)	0	0	0	0	0	1	0	0
(Inc.) / Dec. in Wkg. Cap.	-35	5	7	-11	6	-12	1	0
Tax paid	-19	-30	-26	-11	-18	-24	-29	-30
CF from Op. Activity	43	98	88	66	106	127	143	149
(Inc.) / Dec. in FA + CWIP	-10	-27	-34	-36	-24	-30	-31	-39
Free Cash Flow	34	71	54	30	81	97	112	110
Interest & Dividend Income	24	5	3	5	15	9	14	15
Others	0	0	1	5	1	1	0	0
CF from Inv. Activity	15	-22	-31	-26	-8	-20	-17	-23
Debt raised / (repaid)	79	-79	25	-19	65	-43	-7	-7
Dividend (incl. tax)	-168	-105	-120	0	-160	-76	-127	-127
Interest paid	0	-2	-2	-2	-2	-3	-2	-3
Others	0	11	13	9	0	0	0	0
CF from Fin. Activity	-89	-176	-84	-12	-97	-123	-136	-137
(Inc.) / Dec. in Cash	-31	-100	-27	27	1	-15	-10	-11
Add: Opening Balance	353	322	222	195	222	223	208	198
Closing Balance	322	222	195	222	223	208	198	186

E: MOFSL estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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