

Hindustan Zinc

Estimate change	↓
TP change	↔
Rating change	↔

Bloomberg	HZ IN
Equity Shares (m)	4,225
M.Cap.(INRb)/(USD\$b)	1187.3 / 14.4
52-Week Range (INR)	372 / 242
1, 6, 12 Rel. Per (%)	0/-22/-15
12M Avg Val (INR M)	350

Financials & valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	294	338	346
EBITDA	162	179	186
EBITDA margin	55	53	54
NP	98	109	113
Adj. EPS (INR)	23	26	27
EPS Gr(%)	22	12	4
BV/Sh. (INR)	81	77	74

Ratios

Net D:E	-0.5	-0.6	-0.6
RoE (%)	29.3	32.6	35.5
RoCE (%)	38.3	42.7	44.0
Payout (%)	77.9	116.4	112.2

Valuations

P/E (x)	12.2	10.9	10.5
P/BV	3.5	3.7	3.8
EV/EBITDA (x)	6.2	5.6	5.4
Div. Yield (%)	6.4	10.7	10.7
FCF Yield (%)	8.2	9.9	9.7

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	64.9	64.9	64.9
DII	32.5	32.5	32.3
FII	0.8	0.9	0.8
Others	1.8	1.7	1.9

FII Includes depository receipts

CMP: INR 281 **TP: INR 255 (-9%)** **Neutral**

Lackluster quarter; power and input costs rising

Management revises costs guidance up by USD100/t

- Hindustan Zinc's (HZ) revenue at INR83b (up 36% YoY and down 11% QoQ) in 2QFY23 was marginally ahead of our estimate of INR 78b. The revenue was higher YoY, driven by 48% higher zinc sales, which was primarily due to 9% higher Zinc prices, 15% higher volumes, and 150% higher premium. The premium was on account of unwinding of hedges, which the company had created at the start of the Russia-Ukraine conflict.
- EBITDA stood in line at INR44b (up 32% YoY and down 14% QoQ). Power and fuel costs were at INR10b, further up 11% QoQ after a 15% QoQ increase in 1QFY23, driven by higher coal prices as FSA materialization improved slightly to 14% in 2Q v/s 8% in 1Q.
- PAT grew 33% YoY and down 13% QoQ to INR27b, in line with our estimate of INR26b, as higher-than-estimated depreciation was offset by lower-than-estimated finance cost.
- The company has exhausted its remaining 50% of the hedges for FY23 in 2QFY23 after using the same in 1Q. The hedges contributed INR5b to the topline and EBITDA, marginally higher than our estimates.
- Refined zinc sales declined 8% QoQ to 189kt after a 4% decline in 1Q, due to continuous reduction in production, while refined lead sales rose 6% QoQ to 57kt after notching up 10% higher QoQ sales in 1Q. Accordingly, Silver sales, at 194tonnes, also rose 10% QoQ after a 9% QoQ growth in 1Q.
- 1HFY23 Revenue/EBITDA/PAT stood at INR 177b/95b/57b, which was up 40%/38%/39% YoY, driven by 22% higher Zinc prices, offset by 6.5%/14.2% decline in Lead/Silver prices YoY. Metal sales volume was also up 13% YoY with zinc volume at 395kt (up 12.5% YoY), lead volumes at 111kt (YoY up 15.6%), and silver sales volume at 371tonnes (up YoY 19%).

Valuation and view

- Management guidance on cost of production continues to increase as thermal coal prices in both domestic and international market remain high, despite international prices cooling off a bit. Materialization of FSA coal volume has improved to about 14% from 8% in 1QFY23. However, USD100/t hike in COP for FY23 v/s guidance, given in 1QFY23, implies cost headwinds.
- Management reiterated its volume guidance of a shade over 1mt in line with our estimates. 1.2mt volume growth continues to elude and the target is shifted to FY25 and beyond. Lower Zinc stock SHFE and curtailments in smelter production should provide price support.

- Strong cash balance of INR 178b and the management's efforts to transfer about INR 100b from general reserve to retained earnings raises expectations of another strong dividend. However, a rich valuation at 5.6x FY23 EV/EBITDA compels us to reiterate our Neutral rating with an unchanged TP of INR 255, based on 5x FY23 EV/EBITDA.

Guidance on volume retained, costs guidance increased

- FY23 guidance:
 - Mined metal production to be maintained at 1,050-1,075kt
 - Silver production maintained at 700-725t (up from 647t in FY22)
 - Project capex at USD125-150m
- Management revised its cost guidance up by USD100/t to USD1,225-1,275/t after a surprise downward revision in its cost guidance in 1QFY23. The increase in cost guidance is in line with our expectations. ([refer our 1QFY23 RU](#))
- Project capex guidance also remains constant at USD125-150m, along with maintenance capex guidance at USD350-400m.
- The company entered into an agreement with promoter company for supply of about 200MW of hydro power under group captive scheme, which will reduce its carbon footprints. The company will invest about INR 3.5b toward its 26% equity stake in the company. The hydro power production will likely start from 1QFY26.

Quarterly performance (INR b)

Y/E March	FY22				FY23E				FY22	FY23E	FY23	vs Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	65.3	61.2	79.9	88.0	93.9	83.4	78.7	82.5	294.4	338.4	78.1	6.8%
Change (YoY %)	63.7	8.2	32.4	26.6	43.7	36.2	-1.5	-6.2	30.1	15.0	27.5	
Change (QoQ %)	-6.0	-6.3	30.5	10.1	6.7	-11.2	-5.6	4.9			-16.8	
EBITDA	35.6	33.4	43.7	49.6	51.4	44.1	40.3	43.5	162.3	179.2	41.8	5.3%
Change (YoY %)	125.8	13.0	33.7	28.0	44.4	32.1	-7.8	-12.3	39.0	10.5	25.4	
Change (QoQ %)	-8.3	-6.3	31.0	13.5	3.5	-14.2	-8.6	8.0			-18.6	
As % of Net Sales	54.5	54.5	54.7	56.4	54.7	52.9	51.2	52.7	55.1	53.0	53.6	
Finance cost	0.9	0.8	0.5	0.7	0.4	0.5	0.7	0.6	2.9	2.3	0.7	
DD&A	6.6	7.0	7.4	8.2	7.3	8.0	8.1	8.4	29.2	31.8	7.2	
Other Income	3.5	3.1	2.8	2.8	3.1	3.7	3.6	3.6	12.2	13.9	3.6	
PBT (before EO item)	31.6	28.6	38.6	43.6	46.7	39.3	35.0	38.1	142.3	159.1	37.6	4.5%
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	39.3	35.0	38.1	141.0	159.1	37.6	4.5%
Total Tax	10.4	8.5	11.6	14.3	15.8	12.5	10.5	11.4	44.7	50.2	11.3	
% Tax	34.4	29.5	30.0	32.8	33.8	31.7	30.0	30.0	31.7	31.5	30.0	
Reported PAT	19.8	20.2	27.0	29.3	30.9	26.8	24.5	26.7	96.3	109	26.3	1.9%
Adjusted PAT	21.2	20.2	27.0	29.3	30.9	26.8	24.5	26.7	97.6	109	26.3	1.9%
Change (YoY %)	55.8	4.0	22.8	17.9	46.1	32.9	-9.3	-8.9	22.3	11.5	30.4	
Change (QoQ %)	-14.8	-4.7	33.9	8.4	5.6	-13.3	-8.6	8.9			-15.0	

Source: Company, MOFSL

Operational performance

Y/E March	FY22				FY23E				FY22	FY23E	FY23	vs Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Mine prodn. (kt)	221	248	252	296	252	255	260	268	1,017	1,035	250	1.9%
Sales												
Zinc refined (kt)	187	164	212	214	206	189	199	205	777	799	184	2.5%
Lead refined (kt)	49	47	47	49	54	57	56	57	192	224	58	-2.1%
Silver (tonnes)	160	152	173	162	177	194	178	183	647	732	187	3.8%
LME/Realizations												
Zinc LME (USD/t)	2,913	2,991	3,364	3,754	3,915	3,271	3,200	3,265	3,257	3,413	3,278	-0.2%
Premium (USD/t)	196	240	205	226	396	596	225	225	250	354	400	49.0%
Zinc Realization (USD/t)	3,109	3,231	3,569	3,980	4,311	3,867	3,425	3,490	3,507	3,767	3,678	
Lead LME (USD/t)	2,123	2,341	2,331	2,335	2,199	1,976	1,962	1,958	2,285	2,024	2,035	-2.9%
Premium (USD/t)	161	200	226	213	168	206	206	206	197	194	200	2.8%
Lead Realization (USD/t)	2,284	2,541	2,557	2,548	2,367	2,182	2,168	2,164	2,482	2,217	2,235	
Silver LME (INR/t)	69,700	64,950	62,755	63,667	61,623	53,971	60,663	61,604	65,268	59,485	58,964	-8.5%
Premium (INR/t)	-575	-279	-269	283	951	1,648	500	500	0	0	500	229.5%
Silver Realization (INR/t)	69,125	64,671	62,486	63,951	62,574	55,619	61,163	62,104	65,268	59,485	59,464	

**Highlights from the management commentary****Capex – coastal smelter no longer being actively pursued**

- 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. The management highlighted that there is no further update on this since the end of 1QFY23.
- The management reiterated setting up 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.
- The management also reiterated the setting up of a 160kt roaster plant at a capex of around INR900m over the next one and half years.
- Construction of Coastal smelter in Gujarat to smelt zinc concentrate from Zinc International arm of Vedanta is now not being actively pursued.
- The management also highlighted its investment into promoter company Serentica Renewables India 4 Private Limited (“Serentica”) for a 26% equity stake for INR3.5b to help the company seek up to 200MW of hydro power. We await more clarity on the same.

Rise of thermal coal cost continues unabated

- Linkage coal has been improving over the last two quarters at ~14% in 2QFY23 v/s 8% in 1QFY23 and ~2% in 4QFY22. HZ has about 1mt of FSA coal to be delivered in FY23E.
- Coal and fuel costs currently account for 24% of the total CoP v/s 25% in 1QFY23 and v/s 31% in 4QFY22. We believe the same is likely to remain at elevated levels, unless Coal India delivers higher quantity of FSA coal. E-auction premium for Sep’22 for COAL stood at 312%, indicating high coal costs in 3QFY23 for HZ.

Hedging zinc sales

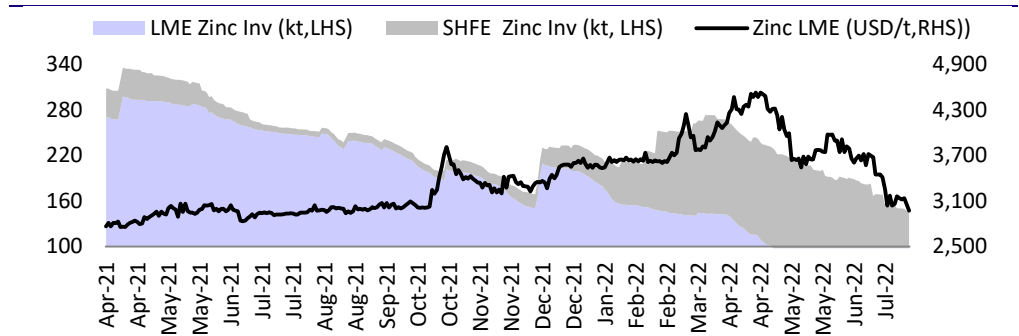
- The management has started the practice of hedging part of its sales volume from FY23E.

- 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 the remaining 10% has been consumed in 2QFY23. With this, the company has no more profitable hedges and premium over LME should come down in 3QFY23.

Debt and cash

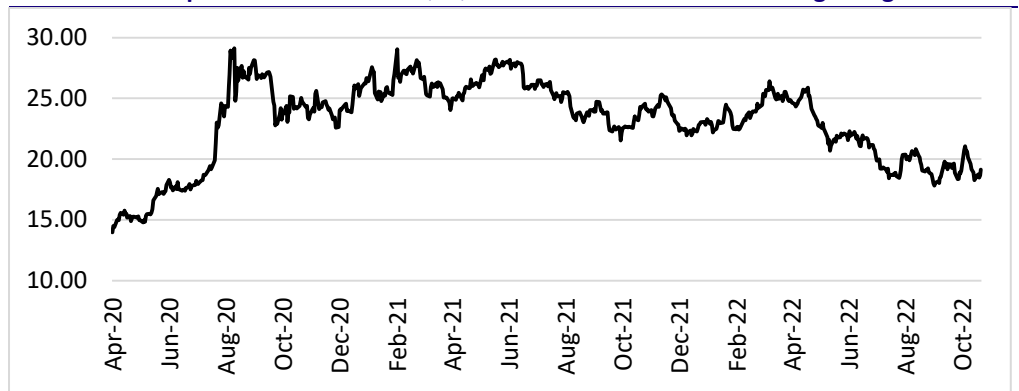
- The current gross cash and equivalents in its books is INR178b.
- The company announced a dividend of INR21/share in 1Q, which resulted in a cash outflow of INR89b.
- In addition, the company repaid INR 7b NCDs during the quarter.

Exhibit 1: LME Zinc prices have corrected 16% in 2Q and 10% since the start of CY22



Source: Bloomberg, MOFSL

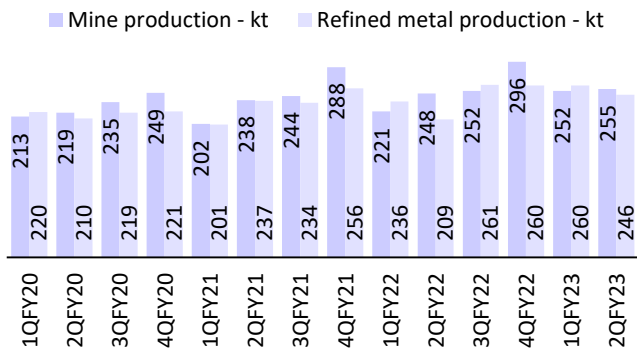
Exhibit 2: Silver price corrected 12% QoQ and are down 22% since the beginning of FY23



Source: Bloomberg, MOFSL

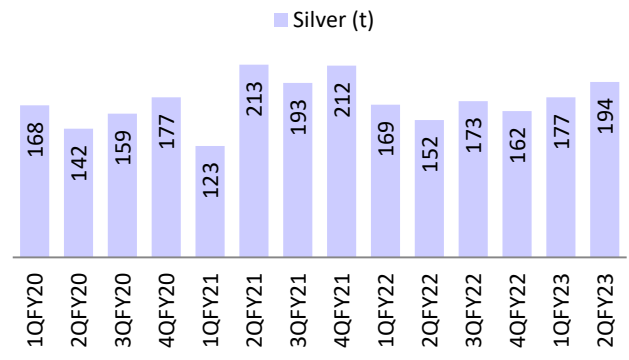
Story in charts

Exhibit 3: Mine production remains muted



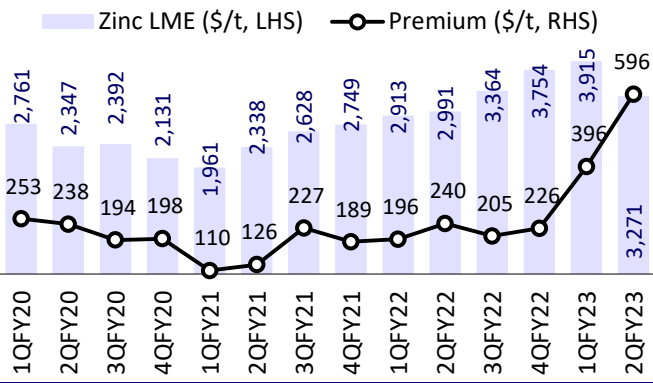
Source: Company, MOFSL

Exhibit 4: Silver production (t)



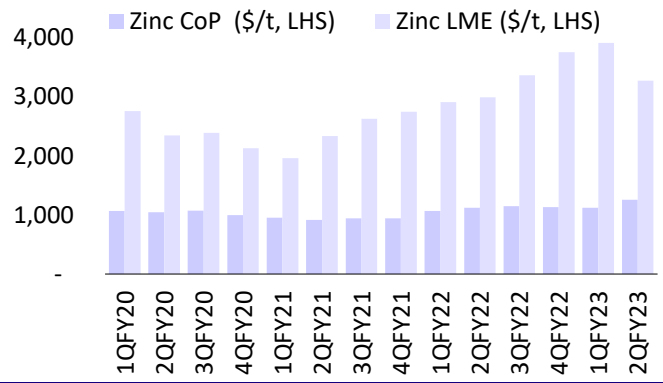
Source: Company, MOFSL

Exhibit 5: Premium during the quarter stood at USD 596/t (+149% YoY), driven by unwinding of hedges



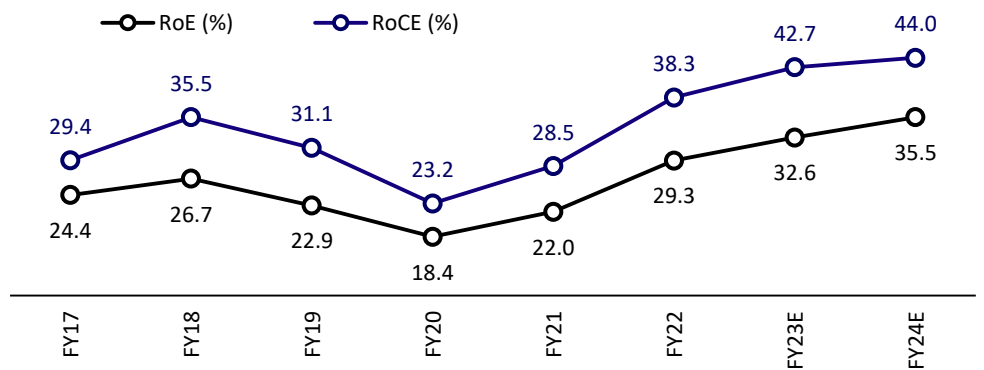
Source: Company, MOFSL

Exhibit 6: while costs have been structurally rising with elevated thermal coal costs



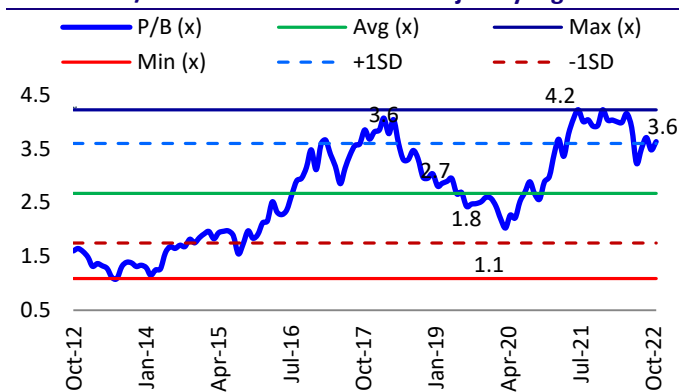
Source: Company, MOFSL

Exhibit 7: Volumes will continue to drive RoE, but valuations already factor in the same



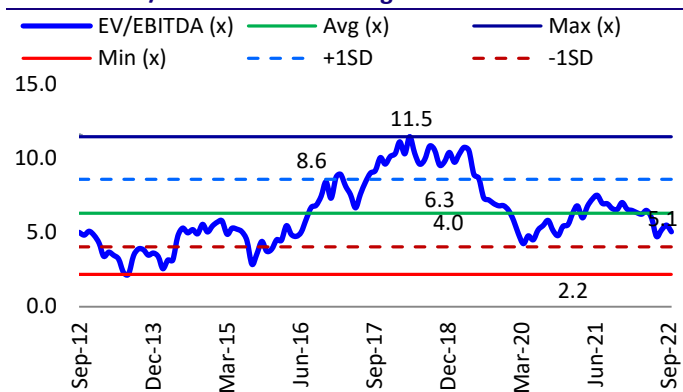
Source: MOFSL, Company

Exhibit 8: P/B ratio at elevated levels to justify high RoE –



Source: MOFSL, Company

Exhibit 9: EV/EBITDA remains range bound



Source: MOFSL, Company

Exhibit 10: Changes in our assumptions and key financials

		FY23			FY24		
		New	Old	% change	New	Old	% change
Price Assumptions (LME)							
Zinc	USD/t	3,413	3,414	0%	3,200	3,200	0
Lead	"	2,024	2,039	-1%	2,000	2,000	0
Silver	INR/kg	59,485	60,734	-2%	61,460	61,460	0
Sales Volume Assumptions							
Refined Zinc	kt	799	794	1%	879	879	0
Refined Lead	kt	224	225	-1%	260	260	0
Silver	mt	732	725	1%	781	781	0
Financial Estimates							
Revenue	Rs bn	338	333	2%	346	346	0
EBITDA	"	179	180	-1%	186	193	-4
Adj PAT	"	109	112	-2%	113	120	-6
EPS	Rs/sh	26	26	-2%	27	28	-6

Source: MOFSL, Company

Exhibit 11: 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	14,377	12.2	11.0	10.6	6.2	5.9	5.6	3.5	3.7	3.8	29.3	32.3	35.4
Korea Zinc	8,154	12.8	13.8	13.2	7.1	7.2	6.9	1.3	1.3	1.2	11.0	9.6	9.4
Teck	18,481	5.2	7.6	8.3	3.2	3.7	3.5	1.0	0.9	0.8	19.9	11.5	9.0

Source: MOFSL, Company, Bloomberg.

Exhibit 12: Valuation continues to remain elevated

Valuation	UoM	FY23E
EBITDA	INR b	179.2
EV/EBITDA Multiple	x	5.0
Enterprise Value	INR b	896
Add: Net Cash	INR b	182
Equity value	INR b	1079
Shares outstanding	bn	4.23
Target price (INR/sh; rounded-off)	INR/sh	255

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	338	346
Total Expenses	76	98	104	97	110	132	159	160
EBITDA	97	123	107	88	117	162	179	186
EBITDA attribute	97	123	107	88	117	162	179	186
DDA	18	17	19	23	25	29	32	36
EBIT	80	106	88	66	91	133	147	149
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	159	161
Tax	19	32	25	16	26	45	50	48
Rate (%)	18.5	26.3	23.9	18.9	24.5	31.4	31.5	30.0
PAT	83	89	80	68	80	98	109	113
EO expense (Income)	0	-2	0	0	0	1	0	0
PAT (after EO)	83	92	80	68	80	96	109	113
Attrib. PAT (after MI & asso)	83	89	80	68	80	98	109	113
Change (YoY %)	-0.7	7.2	-10.8	-14.5	17.3	22.3	11.5	3.7

Balance Sheet (Consolidated)								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	316	303
Net Worth	308	359	336	403	323	343	325	311
Total Loans	79	0	25	6	65	28	21	14
Deferred Tax Liability	-27	-22	-19	-18	-11	9	29	47
Capital Employed	360	337	342	391	377	381	376	373
Gross Block	165	195	249	288	317	352	384	424
Less: Accum. Deprn.	65	82	101	124	149	178	210	247
Net Fixed Assets	100	113	148	165	168	174	174	178
Capital WIP	31	32	23	25	19	21	21	21
WC. Assets	360	262	235	262	259	252	250	243
Inventory	19	14	15	18	14	20	23	24
Account Receivables	1	2	2	4	4	7	6	6
Cash and Bank Balance	322	222	195	222	223	208	204	197
Loans and advances	17	25	23	17	18	17	17	17
WC. Liability & Prov.	131	70	63	61	69	66	69	69
Trade payables	12	9	12	15	15	20	23	24
Provisions & Others	119	61	51	46	54	46	46	46
Net WC. Assets	229	192	172	201	190	186	181	174
Appl. of Funds	360	337	342	391	377	381	376	373

Financials and valuations

Cash Flow Statement

	INR b							
	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EBITDA	97	123	107	88	117	162	179	186
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	-30	-31
CF from Op. Activity	43	98	88	66	106	127	150	155
(Inc)/Dec in FA + CWIP	-10	-27	-34	-36	-24	-30	-32	-40
Free Cash Flow	34	71	54	30	81	97	118	115
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	-18	-25
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	-4	-7
Add: Opening Balance	353	322	222	195	222	223	208	204
Closing Balance	322	222	195	222	223	208	204	197

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	25.8	26.7
Cash EPS	23.9	25.1	23.3	21.5	24.9	30.0	33.3	35.4
BV/Share	72.9	85.0	79.5	95.4	76.5	81.1	76.9	73.6
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	116.4	112.2
Valuation (x)								
P/E	14.3	13.3	14.9	17.4	14.9	12.2	10.9	10.5
Cash P/E	11.8	11.2	12.1	13.1	11.3	9.4	8.4	7.9
P/BV (incl.-goodwill)	3.9	3.3	3.5	2.9	3.7	3.5	3.7	3.8
EV/Sales	0.0	4.4	4.8	5.2	4.5	3.4	3.0	2.9
EV/EBITDA	0.0	7.9	9.5	11.0	8.8	6.2	5.6	5.4
Dividend Yield (%)	10.5	2.8	7.1	0.0	13.5	6.4	10.7	10.7
Return Ratios (%)								
EBITDA Margins	56.3	55.6	50.5	47.7	51.6	55.1	53.0	53.7
Net Profit Margins	48.1	40.4	37.7	36.7	35.3	33.2	32.2	32.7
RoE	24.4	26.7	22.9	18.4	22.0	29.3	32.6	35.5
RoCE (pre-tax)	29.4	35.5	31.1	23.2	28.5	38.3	42.7	44.0
RoIC (pre-tax)	465.8	137.9	67.0	41.6	56.7	81.5	85.6	85.9
Working Capital Ratios								
Fixed Asset Turnover (x)	1.7	2.1	1.6	1.2	1.4	1.7	1.9	2.0
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	3.5
Interest Cover Ratio	51.6	43.7	90.4	75.9	28.4	50.1	71.6	49.8
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	-0.6	-0.6

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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