

Hindustan Zinc

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	HZ IN
Equity Shares (m)	4225
M.Cap.(INRb)/(USDb)	1303.9 / 15.7
52-Week Range (INR)	383 / 277
1, 6, 12 Rel. Per (%)	0/-17/0
12M Avg Val (INR M)	288

Financials & valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	341	309	349
EBITDA	175	144	181
EBITDA margin	51	46	52
NP	105	83	112
Adj. EPS (INR)	25	20	27
EPS Gr(%)	8	-21	36
BV/Sh. (INR)	31	40	57

Ratios

Net D:E	0.0	-0.2	-0.5
RoE (%)	44.5	55.3	54.9
RoCE (%)	47.9	41.6	47.2
Payout (%)	303.5	51.0	37.6

Valuations

P/E (x)	12.8	16.2	11.9
P/BV	10.4	7.9	5.6
EV/EBITDA (x)	7.7	9.1	6.7
Div. Yield (%)	23.7	3.1	3.1
FCF Yield (%)	8.6	6.1	9.4

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	64.9	64.9	64.9
DII	32.5	32.5	32.5
FII	0.8	0.8	0.8
Others	1.8	1.8	1.8

FII Includes depository receipts

CMP: INR309 **TP: INR290 (-6%)** **Neutral**

Performance in line; guidance retained

- Hindustan Zinc (HZ)'s 2QFY24 revenue came in at INR68b (down 19% YoY), which was in line with our estimate of INR67b.
- EBITDA stood at INR31b (down 29% YoY), in line with our estimate of INR32b. The decline in EBITDA was attributed to lower LME prices, lower volumes, and strategic hedging impact, which were partially offset by lower cost of production (CoP) and favorable exchange rates.
- The CoP stood at USD1,137/t (the lowest CoP in the last five quarters). The reduction in CoP is driven by better coal linkage availability, softening of input costs, and better ore grades.
- APAT stood at INR17b (down 35% YoY), in line with our estimate of INR18b.
- Refined zinc sales for 2QFY24 stood at 185kt (down 2% YoY), refined lead sales came in at 57kt (flat YoY), and silver sales stood at 181t (down 7% YoY).
- 1HFY24 revenue stood at INR141b (down 21% YoY) and EBITDA stood at INR65b (down 32% YoY).
- HZ posted the highest ever 1H mined metal production of 509kt, aided by higher ore production at Rampura Agucha mines and improved metal grades.
- Refined lead production was hit by low plant availability, which indirectly impacted silver production in 1HFY24.
- Gross debt currently stands at INR113b and cash & cash equivalents on books are around INR114b.

Guidance on volume and CoP maintained

- HZ maintained its mined metal production target of 1,075-1,100kt, refined metal production target of 1,050-1,075kt, and saleable silver target of 725-750t for FY24.
- Management has also maintained its cost guidance at USD1,125-1,175/t.
- Project capex is expected to be in the range of USD175-200m for FY24.

Valuation and view

- 2QFY24 performance has been largely in line with our estimates. Though management has reiterated its FY24 mined metal volume guidance of around 1.1mt and expects the CoP to be in the range of USD1,125-1,175/t, any price fluctuations in LME and increase in coal cost would impact the margins.
- HZ is currently trading at a rich valuation of 6.7x FY25E EV/EBITDA and 5.6x FY25E P/B. We retain our estimates for FY24 and FY25 and reiterate our **Neutral** rating on the stock with a TP of INR290 (premised on 6x FY25E EV/EBITDA).

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Quarterly Performance

Y/E March	FY23				FY24E				FY23	FY24E	FY24E 2QE	Vs. Est. %
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Sales												
Zinc refined (kt)	206	189	210	216	208	185	213	217	821	823		
Lead refined (kt)	54	57	46	54	50	57	55	56	211	218		
Silver (tonnes)	177	194	161	182	179	181	174	177	714	712		
Net Sales	94	83	79	85	73	68	81	88	341	309	67	1
Change (YoY %)	43.7	36.2	-1.6	-3.3	-22.4	-18.5	2.7	3.2	15.8	-9.3		
Change (QoQ %)	6.7	-11.2	-5.6	8.2	-14.4	-6.7	18.9	8.7				
EBITDA	51	44	37	43	33	31	37	42	175	144	32	(3)
Change (YoY %)	44.4	32.1	-15.2	-14.2	-34.8	-28.8	-0.7	-1.4	7.9	-18.0		
Change (QoQ %)	3.5	-14.2	-15.9	14.8	-21.3	-6.2	17.3	14.0				
As % of Net Sales	54.7	52.9	47.1	50.0	46.0	46.2	45.6	47.8	51.3	46.4		
Finance cost	0	1	1	2	2	2	2	2	3	9		
DD&A	7	8	8	9	8	8	8	9	33	34		
Other Income	3	4	3	4	3	2	2	2	14	10		
PBT (before EO item)	47	39	32	35	26	23	29	33	153	110		
EO exp. (income)	0	0	0	0	0	0	0	0	0	0		
PBT	47	39	32	35	26	23	29	33	153	110		
Total Tax	16	12	10	9	6	6	7	8	48	28		
% Tax	33.8	31.7	32.3	26.3	24.8	25.0	25.2	25.2	31.2	25.0		
Reported PAT	31	27	22	26	20	17	21	24	105	83	18	(2)
Adjusted PAT	31	27	22	26	20	17	21	24	105	83	18	(2)
Change (YoY %)	55.9	32.9	-20.2	-11.8	-36.5	-35.5	-0.8	-5.3	9.2	-21.2		
Change (QoQ %)	5.6	-13.3	-19.6	19.8	-24.0	-12.0	23.7	14.4				

Source: Company, MOFSL



Highlights from the management commentary

Guidance on volume and CoP retained

- Management has maintained its zinc CoP guidance at USD1,125-1,175/t for FY24 (with focus on lower end of the band) after a cost reduction of USD57/t QoQ in 2QFY24 and USD122/t over the last five quarters.
- HZ targets to clock mined metal production in the range of 1,075-1,100kt and refined metal production in the range of 1,050-1,075kt.
- Management expects to achieve saleable silver production in the range of 725-750kt. The company expects robust demand in silver on the back of increased requirements from industrial manufacturers, higher usage in EVs, growing demand in RE applications, and the widespread roll out of 5G networks.

Cash and debt

- Cash and cash equivalent as of 1HFY24 stood at INR114b. Total debt has seen a reduction of ~ INR5b to INR113b.
- Majority of the investments are in high-quality debt instruments.

Capex and projects

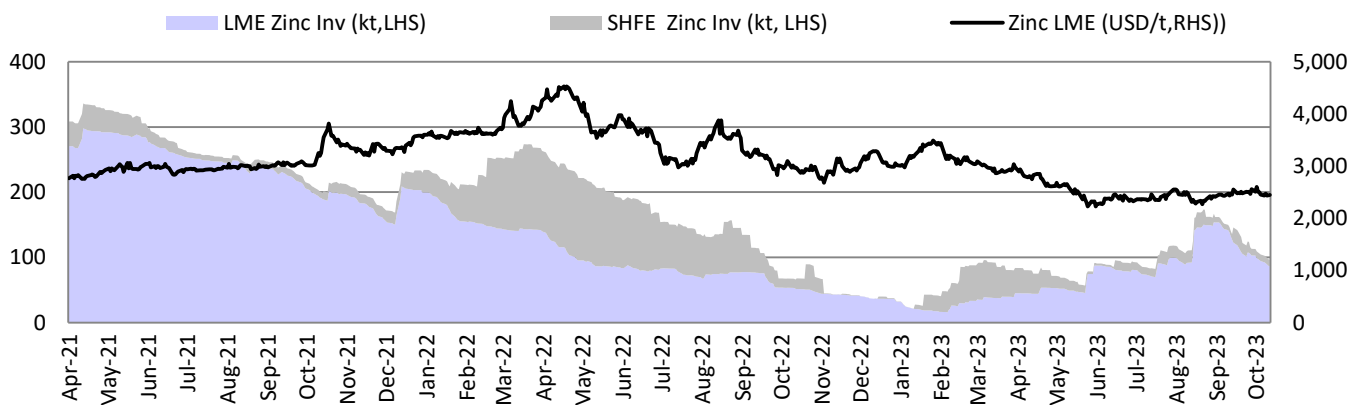
- The project capex of USD175-200m for FY24 remains unchanged.
- Fumer plant has been commissioned in 2QFY24 at Chanderiya and the same is expected to be ramped up from 3QFY24. Upon reaching full operational capacity, the plant is projected to contribute an additional 30t of silver and 7kt of saleable metal.
- The 30kt HZAPL hot commissioning is concluded and the company produced its first alloy in Oct'23. Once fully ramped up, VAP alloy products will contribute 20-25% of the total output from HZAPL.

- All orders for Roaster at Debari has been placed and EPC contractors have been mobilized. This will help the company attain its future target of 1.2mt.

Other updates

- The company now controls ~75% of India’s primary zinc market.
- The average mine life is around 25 years.
- Domestic zinc demand remains robust, driven by higher demand from construction and infrastructure projects.
- Domestic lead demand is expected to increase due to higher demand from the automobile sector, industrial battery segment, and infrastructure development.
- Exploration is likely to enhance mine R&R by 15mt in FY24E and 40mt in FY25E.

Exhibit 1: LME Zinc inventory as on date stands at ~97kt



Source: Bloomberg, MOFSL

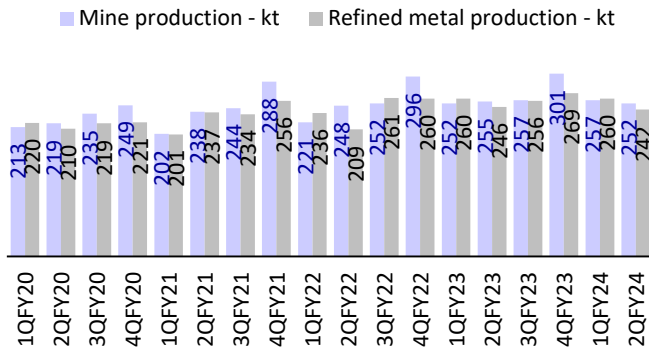
Exhibit 2: Silver prices have remained range bound in 2QFY24



Source: Investing.com, Bloomberg, MOFSL

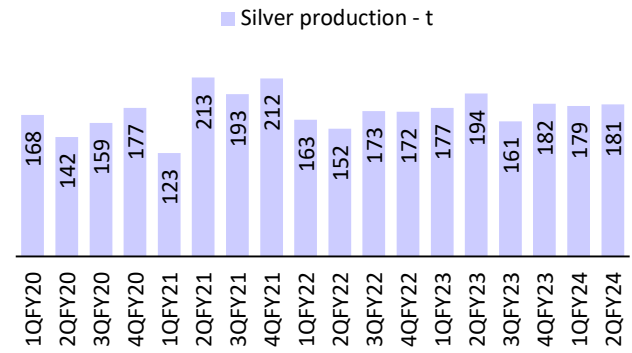
Story in charts

Exhibit 3: Mine production and refined metal production (QoQ)



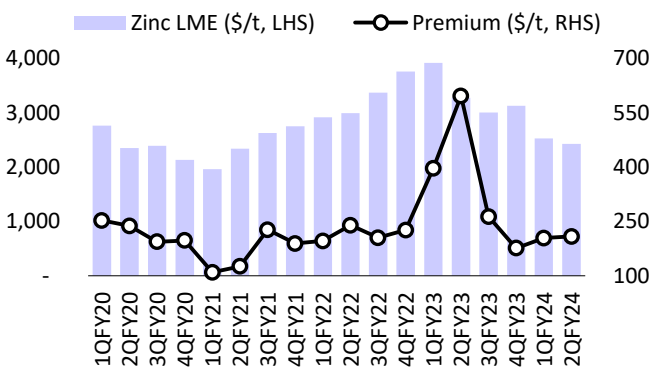
Source: Company, MOFSL

Exhibit 4: Silver production (t) was up 1% sequentially to 181t



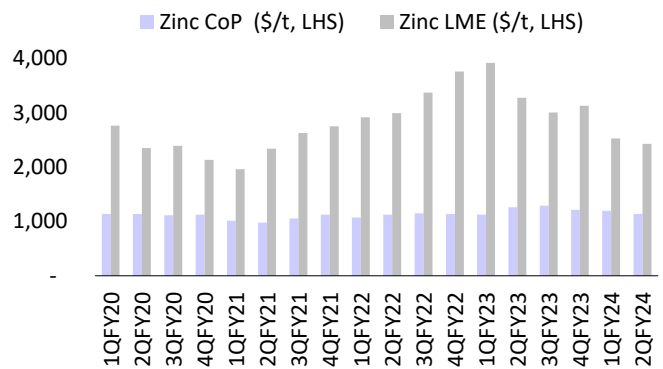
Source: Company, MOFSL

Exhibit 5: Premium during the quarter slightly improved to USD209/t



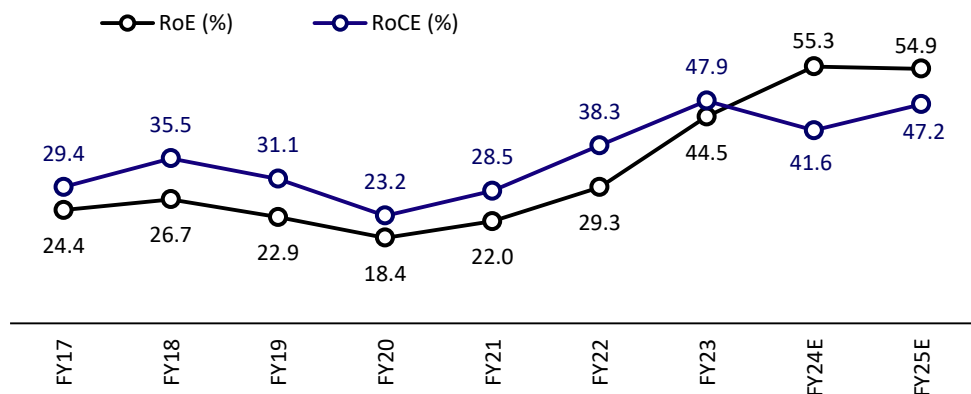
Source: Company, MOFSL

Exhibit 6: CoP eased by USD57/t QoQ and USD122/t over the last five quarters



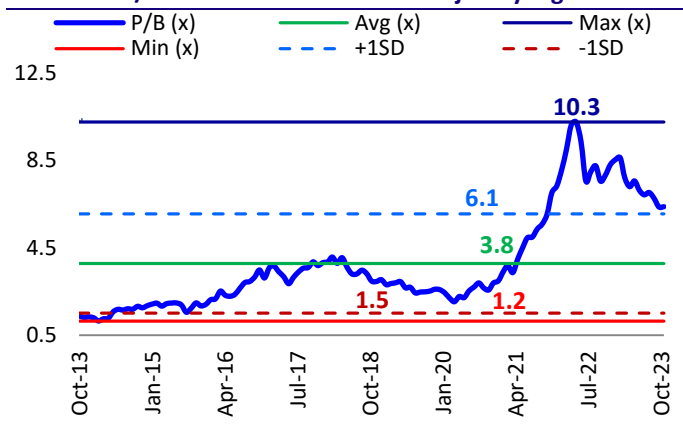
Source: Company, MOFSL

Exhibit 7: ROE/ROCE (%)



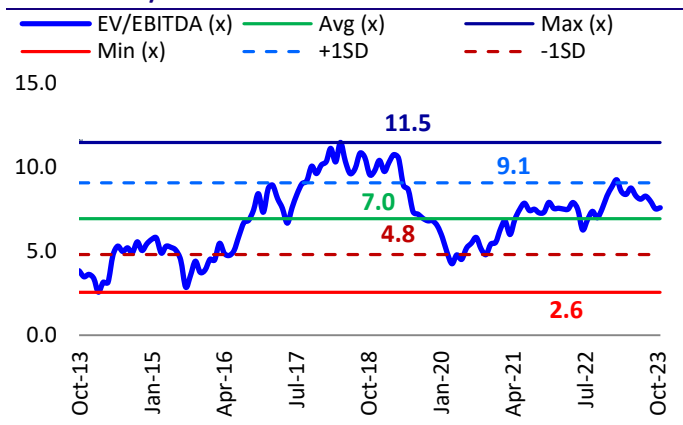
Source: MOFSL, Company

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



Source: MOFSL, Company

Exhibit 9: EV/EBITDA remains around LTA



Source: MOFSL, Company

Exhibit 10: Changes to our assumptions and key financials

		FY24E			FY25E		
		New	Old	% change	New	Old	% change
Price Assumptions (LME)							
Zinc	USD/t	2,664	2,663	0%	3,150	3,150	0%
Lead	"	2,097	2,096	0%	2,050	2,050	0%
Silver	INR/kg	68,939	69,126	0%	65,643	65,643	0%
Sales Volume Assumptions							
Refined Zinc	kt	823	822	0%	867	867	0%
Refined Lead	kt	218	217	0%	215	215	0%
Silver	t	712	712	0%	741	741	0%
Financial Estimates							
Revenue	INR b	309	305	1%	349	349	0%
EBITDA	"	144	144	0%	181	182	0%
Adj PAT	"	83	83	0%	112	112	0%
EPS	INR/sh	20	20	0%	27	27	0%

Source: MOFSL, Company

Exhibit 11: Valuation remains elevated

Valuation	UoM	FY25E
EBITDA	INR b	181
EV/EBITDA Multiple	x	6
Enterprise Value	INR b	1,088
Add: Net Cash	INR b	122
Equity value	INR b	1,211
Shares outstanding	b	4.2
Target price (INR/share)	INR/sh	290

Source: MOFSL

Financials and valuations

Income Statement								INR b	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	173	221	211	186	226	294	341	309	349
Total Expenses	76	98	104	97	110	132	166	166	168
EBITDA	97	123	107	88	117	162	175	144	181
DDA	18	17	19	23	25	29	33	34	34
EBIT	80	106	88	66	91	133	142	110	147
Finance cost	2	3	1	1	4	3	3	9	9
Other income	24	18	18	19	18	12	14	10	11
PBT	102	121	105	84	106	142	153	110	150
Tax	19	32	25	16	26	45	48	28	38
Rate (%)	18.5	26.3	23.9	18.9	24.5	31.4	31.2	25.0	25.0
PAT (before EO)	83	89	80	68	80	98	105	83	112
EO expense (Income)	0	-2	0	0	0	1	0	0	0
Reported PAT	83	92	80	68	80	96	105	83	112
APAT (after MI & asso)	83	89	80	68	80	98	105	83	112
Change (YoY %)	-0.7	7.2	-10.8	-14.5	17.3	22.3	7.7	-21.2	35.8

Balance Sheet (Consolidated)								INR b	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY24E
Share Capital	8	8	8	8	8	8	8	8	8
Reserves	300	351	328	395	315	334	121	161	232
Net Worth	308	359	336	403	323	343	129	170	240
Total Loans	79	0	25	6	65	28	119	112	105
Deferred Tax Liability	-27	-22	-19	-18	-11	9	23	23	23
Capital Employed	360	337	342	391	377	381	271	304	367
Gross Block	165	178	232	272	300	335	370	404	420
Less: Accum. Deprn.	65	65	84	107	132	161	194	228	262
Net Fixed Assets	100	113	148	165	168	174	176	176	158
Capital WIP	31	32	23	25	19	21	22	22	22
WC. Assets	360	262	235	262	259	252	156	188	271
Inventory	19	14	15	18	14	20	19	17	19
Account Receivables	1	2	2	4	4	7	4	3	4
Cash and Bank Balance	322	222	195	222	223	208	113	147	227
Loans and advances	17	25	23	17	18	17	21	21	21
WC. Liability & Prov.	131	70	63	61	69	66	84	82	84
Trade payables	12	9	12	15	15	20	21	19	21
Provisions & Others	119	61	51	46	54	46	63	63	63
Net WC. Assets	229	192	172	201	190	186	72	106	187
Appl. of Funds	360	337	342	391	377	381	271	304	367

Financials and valuations

Cash Flow Statement								INR b	
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY24E
EBITDA	97	123	107	88	117	162	175	144	181
Non cash exp. (income)	0	0	0	0	0	1	2	0	0
(Inc)/Dec in Wkg. Cap.	-35	5	7	-11	6	-12	6	0	0
Tax paid	-19	-30	-26	-11	-18	-24	-31	-28	-38
CF from Op. Activity	43	98	88	66	106	127	151	116	143
(Inc)/Dec in FA + CWIP	-10	-27	-34	-36	-24	-30	-35	-33	-17
Free Cash Flow	34	71	54	30	81	97	116	83	127
Interest & Dividend Income	24	5	3	5	15	9	14	10	11
Others	0	0	1	5	1	1	6	0	0
CF from Inv. Activity	15	-22	-31	-26	-8	-20	-15	-24	-5
Debt raised/(repaid)	79	-79	25	-19	65	-43	90	-7	-7
Dividend (incl. tax)	-168	-105	-120	0	-160	-76	-319	-42	-42
Interest paid	0	-2	-2	-2	-2	-3	-3	-9	-9
Others	0	11	13	9	0	0	0	0	0
CF from Fin. Activity	-89	-176	-84	-12	-97	-123	-232	-58	-58
(Inc)/Dec in Cash	-31	-100	-27	27	1	-15	-96	34	80
Add: Opening Balance	353	322	222	195	222	223	208	113	147
Closing Balance	322	222	195	222	223	208	113	147	227
Ratios									
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY24E
Basic (INR)									
EPS	19.7	21.1	18.8	16.1	18.9	23.1	24.9	19.6	26.6
Cash EPS	23.9	25.1	23.3	21.5	24.9	30.0	32.6	27.6	34.7
BV/Share	72.9	85.0	79.5	95.4	76.5	81.1	30.6	40.2	56.8
DPS	29.4	8.0	20.0	16.5	21.3	18.0	75.5	10.0	10.0
Payout (%)	179.3	45.5	127.5	122.9	112.7	77.9	303.5	51.0	37.6
Valuation (x)									
P/E	16.2	15.1	16.9	19.7	16.8	13.8	12.8	16.2	11.9
Cash P/E	13.3	12.7	13.7	14.8	12.8	10.6	9.8	11.5	9.2
P/BV (incl.-goodwill)	4.4	3.7	4.0	3.3	4.2	3.9	10.4	7.9	5.6
EV/Sales	0.0	5.1	5.6	6.1	5.2	4.0	4.0	4.2	3.5
EV/EBITDA	0.0	9.1	11.0	12.7	10.1	7.2	7.7	9.1	6.7
Dividend Yield (%)	9.2	2.5	6.3	5.2	6.7	5.7	23.7	3.1	3.1
Return Ratios (%)									
EBITDA Margins	56.3	55.6	50.5	47.7	51.6	55.1	51.3	46.4	52.0
Net Profit Margins	48.1	40.4	37.7	36.7	35.3	33.2	30.8	26.8	32.2
RoE	24.4	26.7	22.9	18.4	22.0	29.3	44.5	55.3	54.9
RoCE (pre-tax)	29.4	35.5	31.1	23.2	28.5	38.3	47.9	41.6	47.2
RoIC (pre-tax)	465.8	137.9	67.0	41.6	56.7	81.5	86.1	69.4	98.8
Working Capital Ratios									
Fixed Asset Turnover (x)	1.7	2.1	1.6	1.2	1.4	1.7	1.9	1.8	2.1
Receivable (Days)	3	3	3	8	7	9	4	4	4
Inventory (Days)	41	23	27	36	23	24	20	20	20
Trade payable (Days)	25	16	20	29	25	25	22	22	22
Leverage Ratio (x)									
Current Ratio	2.8	3.7	3.7	4.3	3.7	3.8	1.9	2.3	3.2
Interest Cover Ratio	51.6	43.7	90.4	75.9	28.4	50.1	46.9	13.1	18.5
Net Debt/EBITDA	-2.5	-1.8	-1.6	-2.4	-1.4	-1.1	0.0	-0.2	-0.7
Net Debt/Equity	-0.8	-0.6	-0.5	-0.5	-0.5	-0.5	0.0	-0.2	-0.5

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NOTES

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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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