

# Retail Equity Research

## Hindustan Zinc Limited

Metals & Mining

BSE CODE: 500188

NSE CODE: HINDZINC

Bloomberg CODE: HZ:IN

SENSEX: 64,049

**REDUCE**

12 Months Investment Period Rating as per Large Cap  
CMP Rs. 300 TARGET Rs. 258 RETURN -14%  
(Closing: 25-10-23) ↓

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

### Subdued performance; cautious prospects

Hindustan Zinc Limited specialises in the exploration, mining and smelting of zinc, lead and other non-ferrous metals. The company's products include zinc ore, lead zinc concentrate, zinc metal, lead metal, cadmium metal, silver metal and sulphuric acid.

- In Q2FY24, the company reported a drop of 18.5% YoY in revenue to Rs. 6,620cr, primarily due to lower zinc prices and reduced zinc and silver volumes.
- Despite cost improvements, lower revenue affected margins, leading to a contraction of 680 bps YoY in EBITDA margin to 47.4%. Consequently, reported PAT declined 35.2% to Rs. 1,737cr.
- Macroeconomic uncertainties and potential challenges, such as weakened Chinese economy, increasing inflation and rising interest rates, are likely to impact the near-term outlook. Hence, we reiterate our REDUCE rating on the stock with a revised target price of Rs. 258 based on 6.7x FY25E EV/EBITDA.

### Volume decline slashes revenue

In Q2FY24, standalone revenue declined 18.5% YoY to Rs. 6,620cr, primarily attributable to reduced zinc prices and lower zinc and silver volumes. However, this was partly offset by higher lead and silver prices and favourable exchange rates. Production of mined metal declined 1.4% YoY to 252 kt due to lower ore production, which was somewhat mitigated by better overall metal grades. Integrated zinc production fell 2.3% YoY to 185 kt, while refined lead production remained flat YoY at 57 kt. Saleable silver production decreased 6.8% YoY to 181 mt due to accumulation of work-in-progress inventory.

### Margins squeezed as revenue declines

EBITDA declined 28.8% YoY to Rs. 3,139cr driven by lower revenue, partly offset by cost improvements. EBITDA margin also shrank 680 bps to 47.4%. Zinc cost of production before royalty decreased 9.7% YoY, attributable to softer coal and input commodity prices, along with improved domestic coal availability. Reported PAT dropped 35.2% YoY to Rs. 1,737cr, mainly due to lower EBITDA, partly offset by reduced tax expenses.

### Key concall highlights

- The company commissioned Rajpura Dariba mill, taking ore treatment capacity from 0.9 mtpa to 1.1 mtpa. The mill is targeted to reach its full operational capacity by early Q3FY24.
- For FY24, the company expects mined metal production to be in the range of 1,075-1,100 kt and refined metal production in the range of 1,050-1,075 kt. Saleable silver production is estimated to be in the range of 725-750 mt. Project capital expenditure is estimated to be in the range of \$175-200 million.

### Valuation

Macroeconomic factors are expected to significantly affect base metal prices, with potential challenges including a weakened Chinese economy, rising inflation in the US and Europe, increasing interest rates, and subdued global demand. These factors pose key risks to the company's growth prospects, despite easing of supply-chain disruptions, softening of supply side-induced inflation, and robust domestic consumer demand. Thus, we reiterate our REDUCE rating on the stock with a revised target price of Rs. 258 based on 6.7x FY25E EV/EBITDA.

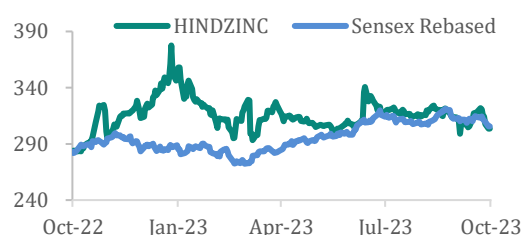
### Company Data

Market Cap (cr)	Rs. 126,644
Enterprise Value (cr)	Rs. 140,221
Outstanding Shares (cr)	422.5
Free Float	6.0%
Dividend Yield	25.2%
52 week high	Rs. 383
52 week low	Rs. 281
6m average volume	65,188
Beta	0.5
Face value	Rs. 2

Shareholding %	Q4FY23	Q1FY24	Q2FY24
Promoters	64.9	64.9	64.9
FII's	0.8	0.8	0.8
MFs/Insti	32.5	32.5	32.5
Public	1.7	1.7	1.8
Others	0.1	0.1	0.1
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-5.8%	-5.4%	5.5%
Absolute Sensex	-3.5%	6.5%	7.6%
Relative Return*	-2.3%	-11.9%	-2.0%

\*over or under performance to benchmark index



Standalone (cr)	FY23A	FY24E	FY25E
Sales	33,272	30,841	32,495
Growth (%)	15.6	(7.3)	5.4
EBITDA	17,512	15,091	16,384
EBITDA Margin (%)	52.6	48.9	50.4
Adj. PAT	10,520	8,720	9,747
Growth (%)	7.7	(17.1)	11.8
Adj. EPS	24.9	20.6	23.1
Growth (%)	7.8	(17.1)	11.8
P/E	11.8	14.5	13.0
P/B	9.6	12.8	16.0
EV/EBITDA	7.8	9.3	8.7
ROE (%)	81.3	87.9	123.1
D/E	0.9	1.4	2.0

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q2FY24	Q2FY23	YoY Growth %	Q1FY24	QoQ Growth %	H1FY24	H1FY23	YoY Growth %
Revenue	6,620	8,127	(18.5)	7,111	(6.9)	13,731	17,363	(20.9)
<b>EBITDA</b>	<b>3,139</b>	<b>4,408</b>	<b>(28.8)</b>	<b>3,348</b>	<b>(6.2)</b>	<b>6,487</b>	<b>9,545</b>	<b>(32.0)</b>
EBITDA margins	47.4	54.2	(680bps)	47.1	30bps	47.2	55.0	(780bps)
Depreciation	825	798	3.4	801	3.0	1,626	1,529	6.3
<b>EBIT</b>	<b>2,314</b>	<b>3,610</b>	<b>(35.9)</b>	<b>2,547</b>	<b>(9.1)</b>	<b>4,861</b>	<b>8,016</b>	<b>(39.4)</b>
Interest	232	51	354.9	218	6.4	450	95	373.7
Other Income	231	367	(37.1)	287	(19.5)	518	677	(23.5)
Exceptional Items	-	-	-	-	-	-	-	-
Share of profit from Associate	-	-	-	-	-	-	-	-
<b>PBT</b>	<b>2,313</b>	<b>3,926</b>	<b>(41.1)</b>	<b>2,616</b>	<b>(11.6)</b>	<b>4,929</b>	<b>8,598</b>	<b>(42.7)</b>
Tax	576	1,245	(53.7)	646	(10.8)	1,222	2,825	(56.7)
<b>Reported PAT</b>	<b>1,737</b>	<b>2,681</b>	<b>(35.2)</b>	<b>1,970</b>	<b>(11.8)</b>	<b>3,707</b>	<b>5,773</b>	<b>(35.8)</b>
Minority Interest	-	-	-	-	-	-	-	-
<b>PAT att. to shareholders</b>	<b>1,737</b>	<b>2,681</b>	<b>(35.2)</b>	<b>1,970</b>	<b>(11.8)</b>	<b>3,707</b>	<b>5,773</b>	<b>(35.8)</b>
Adjustments	-	-	-	-	-	-	-	-
<b>Adj. PAT</b>	<b>1,737</b>	<b>2,681</b>	<b>(35.2)</b>	<b>1,970</b>	<b>(11.8)</b>	<b>3,707</b>	<b>5,773</b>	<b>(35.8)</b>
No. of shares	422.5	422.5	-	422.5	-	422.5	422.5	-
<b>Adj. EPS (Rs.)</b>	<b>4.1</b>	<b>6.3</b>	<b>(35.2)</b>	<b>4.7</b>	<b>(11.8)</b>	<b>8.8</b>	<b>13.7</b>	<b>(35.8)</b>

### Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	33,457	35,216	30,841	32,495	(7.8)	(7.7)
EBITDA	17,203	17,244	15,091	16,384	(12.3)	(5)
Margins (%)	51.4	49.0	48.9	50.4	(250bps)	140bps
Adj. PAT	10,931	11,243	8,720	9,747	(20.2)	(13.3)
Adj. EPS	25.9	26.6	20.6	23.1	(20.5)	(13.2)

## PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Revenue</b>	<b>22,071</b>	<b>28,790</b>	<b>33,272</b>	<b>30,841</b>	<b>32,495</b>
% change	20.4	30.4	15.6	(7.3)	5.4
<b>EBITDA</b>	<b>11,672</b>	<b>16,226</b>	<b>17,512</b>	<b>15,091</b>	<b>16,384</b>
% change	31.9	39.0	7.9	(13.8)	8.6
Depreciation	2,531	2,917	3,264	3,307	3,322
<b>EBIT</b>	<b>9,141</b>	<b>13,309</b>	<b>14,248</b>	<b>11,784</b>	<b>13,062</b>
Interest	386	290	333	927	972
Other Income	1,819	1,082	1,382	1,423	1,637
<b>PBT</b>	<b>10,574</b>	<b>14,101</b>	<b>15,297</b>	<b>12,281</b>	<b>13,728</b>
% change	26.0	33.4	8.5	(19.7)	11.8
Tax	2,594	4,471	4,777	3,562	3,981
Tax Rate (%)	24.5	31.7	31.2	29.0	29.0
<b>Reported PAT</b>	<b>7,980</b>	<b>9,630</b>	<b>10,520</b>	<b>8,720</b>	<b>9,747</b>
<b>PAT att. to common shareholders</b>	<b>7,980</b>	<b>9,630</b>	<b>10,520</b>	<b>8,720</b>	<b>9,747</b>
Adj*	-	134	-	-	-
<b>Adj PAT</b>	<b>7,980</b>	<b>9,764</b>	<b>10,520</b>	<b>8,720</b>	<b>9,747</b>
% change	17.3	22.4	7.7	(17.1)	11.8
No. of shares (cr)	422.5	422.6	422.5	422.5	422.5
<b>Adj EPS (Rs.)</b>	<b>18.9</b>	<b>23.1</b>	<b>24.9</b>	<b>20.6</b>	<b>23.1</b>
% change	17.2	22.3	7.8	(17.1)	11.8
DPS (Rs.)	21.3	18.0	75.5	20.0	20.0
CEPS (Rs.)	24.9	30.0	32.6	28.5	30.9

## CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Net inc. + Depn.</b>	<b>10,511</b>	<b>12,547</b>	<b>13,784</b>	<b>12,027</b>	<b>13,069</b>
Non-cash adj.	(387)	209	847	(317)	(424)
Changes in W.C	443	(65)	502	198	(18)
<b>C.F. Operation</b>	<b>10,567</b>	<b>12,691</b>	<b>15,133</b>	<b>11,908</b>	<b>12,627</b>
Capital exp.	(2,427)	(2,968)	(3,437)	(3,393)	(3,574)
Change in inv.	(1,515)	2,878	8,665	688	12
Other invest.CF	1,507	936	1,330	1,585	1,744
<b>C.F – Investment</b>	<b>(2,435)</b>	<b>846</b>	<b>6,558</b>	<b>(1,119)</b>	<b>(1,819)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	6,519	(4,320)	8,964	2,000	2,000
Dividends paid	(15,972)	(7,606)	(31,901)	(11,746)	(11,746)
Other finance.CF	(244)	(332)	(287)	(799)	(837)
<b>C.F – Finance</b>	<b>(9,697)</b>	<b>(12,258)</b>	<b>(23,224)</b>	<b>(10,544)</b>	<b>(10,583)</b>
Chg. in cash	(1,565)	1,279	(1,533)	245	225
Closing cash	313	1,592	59	304	529

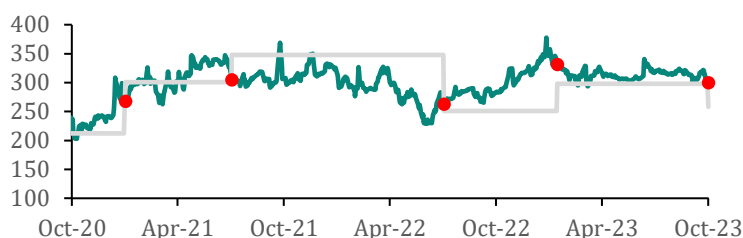
## BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	313	1,592	59	304	529
Accounts Receivable	406	716	380	339	367
Inventories	1,425	1,953	1,862	1,773	1,893
Other Cur. Assets	22,424	19,722	12,561	11,966	12,091
Investments	-	-	-	-	-
Gross Fixed Assets	27,437	30,435	33,892	37,285	40,859
Net Fixed Assets	16,447	17,165	17,528	17,604	17,830
CWIP	1,922	2,075	2,107	2,116	2,143
Intangible Assets	361	231	92	97	101
Def. Tax (Net)	1,058	-	-	53	60
Other Assets	1,371	1,217	865	868	871
<b>Total Assets</b>	<b>45,727</b>	<b>44,671</b>	<b>35,454</b>	<b>35,121</b>	<b>35,884</b>
Current Liabilities	5,715	5,367	7,080	7,575	8,102
Provisions	182	212	189	208	229
Debt Funds	6,481	2,844	11,881	13,881	15,881
Other Liabilities	1,036	1,966	3,362	3,541	3,755
Equity Capital	845	845	845	845	845
Reserves & Surplus	31,468	33,437	12,097	9,071	7,072
Shareholder's Fund	32,313	34,282	12,942	9,916	7,917
Minority Interest	-	-	-	-	-
<b>Total Liabilities</b>	<b>45,727</b>	<b>44,671</b>	<b>35,454</b>	<b>35,121</b>	<b>35,884</b>
<b>BVPS (Rs.)</b>	<b>76</b>	<b>81</b>	<b>31</b>	<b>23</b>	<b>19</b>

## RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	52.9	56.4	52.6	48.9	50.4
EBIT margin (%)	41.4	46.2	42.8	38.2	40.2
Net profit mgn.(%)	36.2	33.4	31.6	28.3	30.0
ROE (%)	24.7	28.1	81.3	87.9	123.1
ROCE (%)	23.6	35.8	57.4	49.5	54.9
<b>W.C &amp; Liquidity</b>					
Receivables (days)	6.7	9.1	4.2	4.0	4.1
Inventory (days)	110.0	122.4	89.2	91.5	95.2
Payables (days)	119.2	127.7	100.0	111.2	114.8
Current ratio (x)	3.1	3.9	0.9	0.7	0.7
Quick ratio (x)	2.9	3.5	0.7	0.6	0.5
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	0.8	1.0	1.0	0.8	0.8
Total asset T.O (x)	0.5	0.6	0.8	0.9	0.9
Int. coverage ratio (x)	23.7	45.9	42.8	12.7	13.4
Adj. debt/equity (x)	0.2	0.1	0.9	1.4	2.0
<b>Valuation</b>					
EV/Sales (x)	5.5	4.3	4.1	4.5	4.4
EV/EBITDA (x)	10.4	7.6	7.8	9.3	8.7
P/E (x)	14.4	12.5	11.8	14.5	13.0
P/BV (x)	3.6	3.5	9.6	12.8	16.0

## Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
22-Jul-19	HOLD	246
24-Jan-20	HOLD	228
27-Jul-20	HOLD	212
25-Jan-21	REDUCE	301
27-Jul-21	HOLD	348
27-Jul-22	REDUCE	251
7-Feb-23	REDUCE	298
25-Oct-23	REDUCE	258

### Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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