

# HINDUSTAN ZINC LTD

Industry **ZINC**  
Bloomberg **HZ IN**  
BSE CODE **500188**


**Sequential improvement in volume, higher other income and rupee depreciation resulted in good QoQ performance....**

**RATING** **NEUTRAL**

**CMP** **268**

**Price Target** **286**

**Potential Upside** **7%**

**Rating Change** 

**Estimate Change** 

**Target Change** 

## Key Highlights

- Hind Zinc is one of the largest integrated producers of zinc-lead with based out of Rajasthan a capacity of 1 million MT and also produces silver. company is currently expanding its capacity from 1mtpa to 1.2mtpa and planning for the next phase from 1.2mtpa to 1.35mtpa is also underway.
- Total mine metal production for 9MFY19 flat at 691kt and YTD UG mined metal production at 691kt is 31% higher led by higher ore production and grades.
- Higher volume, full impact of favorable diesel prices and improvement in coal supply through linkages are expected to keep Zinc CoP before royalty in range of USD 950-975/t in 2HFY19.
- Capex guidance lower to USD 350mn (earlier USD 400-450mn), primarily on account of delay in certain projects such as full shaft commissioning at RA mine being delayed to 2QFY19.

## 3Q FY19 Results

Hindzinc's revenue for the quarter came in at Rs.5540cr (down 6% QoQ, up 16% QoQ), YoY fall was due to lower zinc volume and lower LME zinc, QoQ improvement was led by higher overall volume and rupee depreciation. EBITDA came in at Rs.2838cr (down 12.5% YoY, up 22% QoQ). Other income for the quarter increased to Rs.550cr (1.84x 3QFY18 and 1.4x 2QFY19) led higher treasury income. Depreciation for the quarter was higher at Rs.489cr (up 2% YoY, 8% QoQ) led by increase in production from underground mines leading to higher amortization. PAT came in at Rs.2211cr (down 1% YoY, up 22% QoQ), higher other income led to QoQ improvement in PAT.

## View and Valuation

Hindzinc's 3QFY19 revenue came in at Rs.5540cr (down 6.5% QoQ, up 16% YoY), YoY fall was due to lower zinc volume and lower zinc realization, QoQ improvement was primarily led by higher volume in zinc, lead and silver and rupee depreciation also helped. Management has maintained its guidance of slightly higher mined metal in FY19 vs. FY18, refined zinc production is expected to be slightly lower and lead and silver production is expected to be higher in FY19 vs. FY18. In FY20 volume are expected to be materially higher than FY19 led by full shaft commissioning at Rampura Agucha mine, commission of 2mtpa mill at zavar and completion and commissioning of production shaft in 4QFY19 at Sindesar Khurd. Our FY19 PAT estimate has increased by 4% primarily led by higher other income in 3QFY19; however, we maintain our FY20 estimates and expect EBITDA/PAT CAGR of 3%/1% over FY18-20e. Though we our positive on Hind zinc led by its integrated business model and strong fundamentals but we believe all the positives are factored in at current prices and are **NEUTRAL on the stock with a target price of Rs.286 (7.5x FY20e EV/EBITDA).**

## Key Risks to our rating and target

- High volatility in LME Zinc prices.
- Lower than expected volume growth.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	14181	17273	22084	21704	25163
EBITDA	6652	9739	12272	11005	13030
EBIT	5907	7928	10789	9225	11051
PAT	8175	8316	9276	8181	9493
EPS (Rs)	19	20	22	19	22
EPS growth	0%	2%	10%	-11%	16%
ROE (%)	22%	27%	26%	24%	24%
ROCE (%)	16%	26%	30%	27%	28%
BV	88	73	85	81	92
P/B (X)	2.07	3.96	3.54	3.31	2.92
P/E (x)	9.49	14.58	13.83	13.85	11.94

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## 3Q FY19 Results

## QoQ improvement on all fronts....

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	5922	6277	5310	4777	5540	-6.5%	16.0%	17,273	22,084	27.9%
Other Income	298	486	299	394	550	85%	39.6%	2,474	1,751	-29.2%
Total Income	6220	6763	5609	5171	6090	-2%	17.8%	19,747	23,835	20.7%
COGS	231	18	41	-105	-25	-	-	(314)	498	-
Staff Cost	195	182	232	245	215	10%	-12.2%	722	776	7.5%
Other Exp.	1121	1186	1253	1237	1349	20%	9.1%	3,797	4,238	11.6%
Expenditure	2678	2657	2597	2443	2702	1%	10.6%	7,534	9,812	30.2%
EBITDA	3244	3620	2713	2334	2838	-13%	21.6%	9,739	12,272	26.0%
Depreciation	481	459	387	454	489	2%	7.7%	1,811	1,483	-18.1%
EBIT	2763	3161	2326	1880	2349	-15%	24.9%	7,928	10,789	36.1%
Interest	17	45	15	0	51	200%	-	202	283	40.1%
PBT	3044	3602	2610	2274	2848	-6%	25.2%	10,200	12,257	20%
Excpt. Item	0	-51	0	0	0	-	-	-	240	-
Tax	814	1046	692	459	637	-22%	38.8%	1,884	3,221	71%
PAT	2230	2505	1918	1815	2211	-1%	21.8%	8,316	9,276	12%

## Operating Matrix

Volume/Prices	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %
Refined Zinc ('000 tons)	215	194	192	200	206	172	162	188	-6.0%
Zinc LME (USD/ton)	2770	2596	2963	3236	3421	3112	2569	2576	-20.4%
Refined Lead('000 tons)	45	35	38	46	50	42	49	54	17.4%
Lead LME (USD/ton)	2269	2161	2334	2492	2523	2388	2104	1944	-22.0%
Silver (tons)	139	115	140	132	170	138	172	178	34.8%
Silver LBMA (USD/oz.)	18	17	17	17	17	16	15	15	-12.6%

## Revenue and EBITDA in line with estimates

Company's 3QFY19 revenue and EBITDA were in line with estimates, revenue came in at Rs.5540cr (down 6% YoY, 16% QoQ), YoY fall was due to lower zinc volume and lower LME zinc and QoQ improvement was led by higher volume in zinc, lead and silver and rupee depreciation. EBITDA came in at Rs.2838cr (down 12.5% YoY, up 22% QoQ), EBITDA margin came in at 51.2% (vs.55% in 3QFY18 and 49% QoQ).

## Volume up QoQ across the segments

3QFY19 volume across the segments were up QoQ, with refined zinc volume at 188kt (down 6% YoY, up 16% QoQ), refined lead production came in at 54kt (up 17% YoY, up 5% QoQ) and silver at 178 tonnes (up 35% YoY, up 3% QoQ). QoQ improvement in zinc volume was led by higher mine output and improved mine metal availability, however, YoY volume were lower due to higher lead ratio in ore. Lead volume was higher led by higher mine output as well as higher production from Chanderiya pyro-metallurgical smelter. Silver production was higher due to higher lead production and better silver grade.

## Realization remained subdued for zinc and lead for third sequential quarter

LME zinc and lead have continued their downward trend starting 1QFY19; in line with the fall in LME the realization for zinc have also remained subdued, however there has been 3% QoQ growth in 3QFY19. Whereas, lead realization have been falling for third straight quarter from the high of USD 2709/t in 4QFY19 to USD 2121/t in 3QFY19. Commodity prices have remained subdued in recent past due to US-China trade war, however, management does not see any reason why zinc prices should not go back to early 2018 levels, given current fundamentals of zinc market, like lowest exchange stock since 2007, current consumption of 14mt which is expected to accelerate going forward and stagnant supply at about 13mt since 2012 due to lower than expected commissioning of new projects.

## Management lowered capex guidance

Management lowered its capex guidance to USD 350mn from USD400-450mn in 2QFY19, primarily on account of delay in full shaft commissioning at Rampura Aghucha mine, which is now expected to commission by 2QFY20 (earlier 4QFY19). Furthermore, management expects delay in some other projects as well.

**Conference call highlights****Zinc Market:**

- ❑ Zinc market continues to be robust, exchange stocks at lowest level since 2007; consumption has increased by 1.5mt in last 6 years to 14mt now and is expected to accelerate going forward. China steel production increased despite ongoing trade war, supporting zinc consumption.
- ❑ On mine side supply is stagnant at about 13mt since 2012 due lower than expected commissioning of new projects. Given the present scenario management hopes prices would go back to early 2018 level.

**Operational Performance:**

- ❑ Total mined metal production was at 247kt (up 6% QoQ, 3% YoY) led by strong increase in underground (UG) ore production and improvement in ore grades.
- ❑ Mined metal production from UG mines increased 6% QoQ and 38% YoY led by continued ramp up of Rampura Agucha (RA), Rajpura Dariba (RD) and Zawar mines.
- ❑ Integrated zinc production was at 188kt, up 16% sequentially led by higher mine output and improved mined metal availability and was down 6% YoY due to higher lead ratio in ore.
- ❑ Integrated lead production increased by 10% QoQ and 18% YoY to 54kt due to higher mine output as well as higher production from Chanderiya pyro-metallurgical smelter. Integrated silver production was at 178MT (up 3% QoQ, 34% YoY) led by higher lead production and better silver grades.

**Financial performance:**

- ❑ Revenue was at Rs.5540cr. (up 16% QoQ and down 6% YoY), QoQ increase was led by higher metal volume and rupee depreciation and YoY fall was due to lower metal prices which was partly offset by rupee depreciation.
- ❑ Cost of production (CoP) was at USD 997 (Rs.71855), improving by 4% 1% in Rs.) QoQ and by 3% YoY (higher by 9% in Rs.). QoQ improvement was because of higher volume, operational efficiency and lower diesel cost which was partly offset by higher mine development expense. YoY improvement was due to higher acid credits.
- ❑ Other income was higher due to higher treasury income led by MTM gain because of lower interest rates.
- ❑ Depreciation was higher due to higher production from UG mines leading to higher amortization.
- ❑ Cash and Cash equivalents at the end of Dec'18 was at Rs.17462cr before payment of short term borrowing taken for payment of interim dividend in Nov'18. The net cash and cash equivalents was at Rs.12528cr.

**Updates on Expansion projects:**

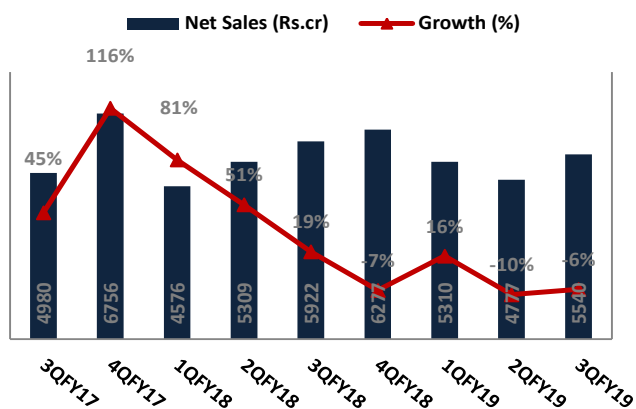
- ❑ Mine development at Sindesar Khurd was at 5.9 km and mine is operating at run rate of over 5mt. Then new 1.5mtpa mill was commissioned in the quarter. Production shaft work is reaching completion and commissioning is expected in 4QFY19.
- ❑ RA mine development was at 6.94 km in the quarter and is operating at a run rate of 3.5mt. Full shaft commission is expected by 2QFY20. Full shaft commissioning has been delayed due to some financial issue with shaft sinker, which has now been resolved and development is on track.
- ❑ Led by substantial improvement in infrastructure zawar is now delivering at a run rate of 3.5mt. Commissioning of 2mtpa mill at Zawar is on track and is expected to get commissioned in 4QFY19. Fumer project at Chanderiya is expected to commission in 4QFY19. Delay in fumer project is primarily on account of fatality that took place in earlier quarter.
- ❑ Up gradation of existing shaft and infra enhancement have led to ore production run rate of 2mt at RD mine.
- ❑ 22 MW solar plant was commissioned at RA during the quarter taking the total solar capacity to 38MW.

**Outlook:**

- ❑ Management maintained its guidance of reaching 1.2mt mined metal capacity in FY20. Refined zinc production is expected to be slightly lower than FY18; lead production is expected to be higher than FY18. Silver production is expected to be in range of 650-700MT in FY19.
- ❑ Higher volume, full impact of favorable diesel prices and improvement in coal supply through linkages are expected to keep Zinc CoP before royalty in range of USD 950-975/t in 2HFY19.
- ❑ Capex guidance has been lowered to USD350mn from USD400-450mn in 2QFY19; primarily due to delay in full shaft commissioning at RA mine and some other projects which have been delayed.

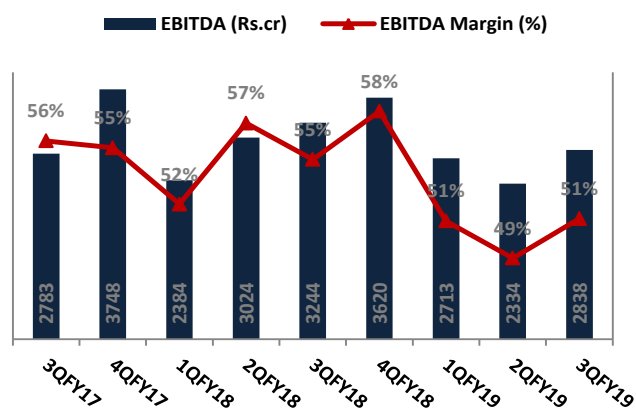
## Exhibit: Net Sales and Growth Trend

higher sequential zinc volume led to QoQ improvement in sales....



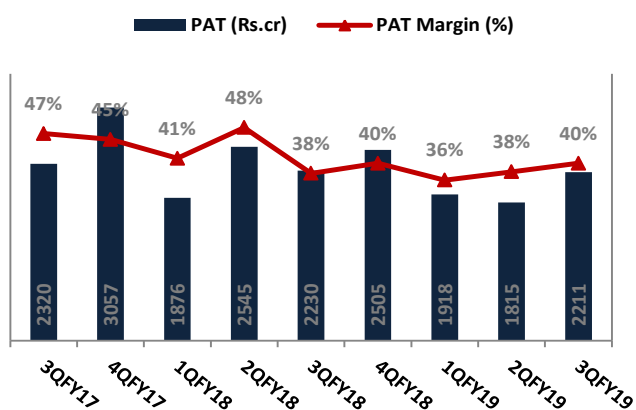
## Exhibit: EBITDA and EBITDA Margin Trend

better QoQ volume across the segment and rupee depreciation led to QoQ improvement in EBITDA....



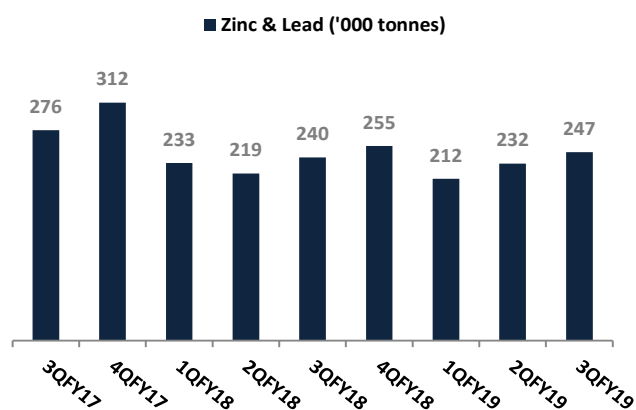
## Exhibit: PAT and PAT Margin Trend

PAT margin were better YoY and QoQ led by higher other income due to increase in treasury income....



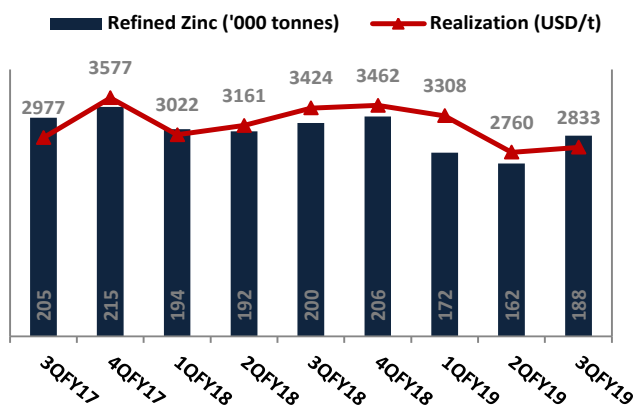
## Exhibit: Total Mined Metal Production

Mined metal production is increasing steadily led by strong increase in UG production and improvement in ore grades....



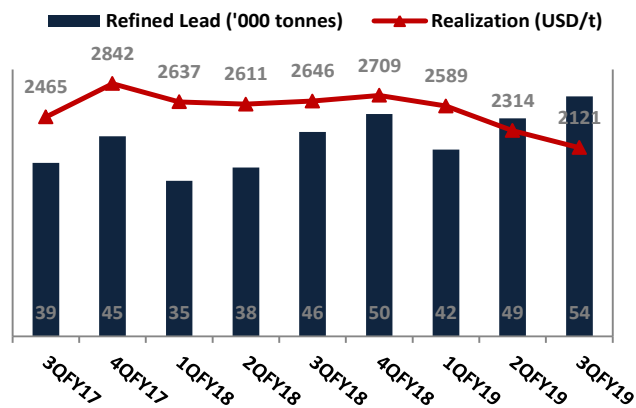
## Exhibit: Zinc Volume and Realization Trend

zinc volume on QoQ basis have improved, however realization still remain on the lower side due to subdued LME prices....



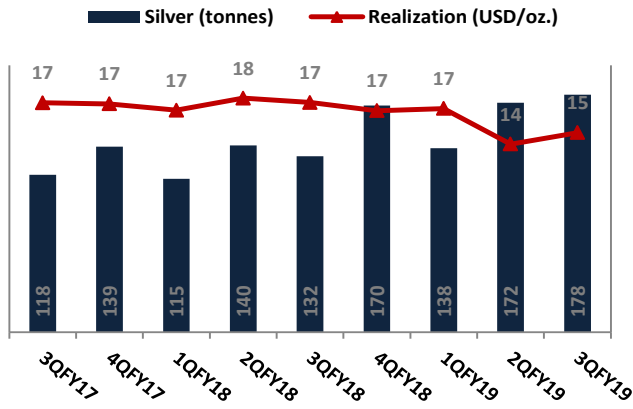
## Exhibit: Lead Volume and Realization Trend

lead volume has been increasing on QoQ basis but realization is on a downward trend starting 1QFY19....



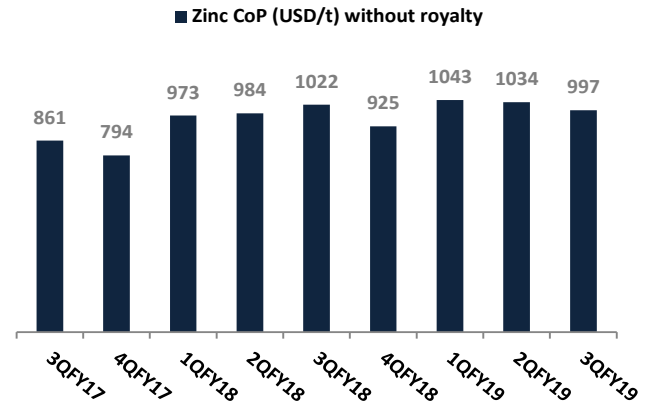
## Exhibit: Silver Volume and Realiation Trend

silver volume has also been increasing in line with increase in lead volume.....



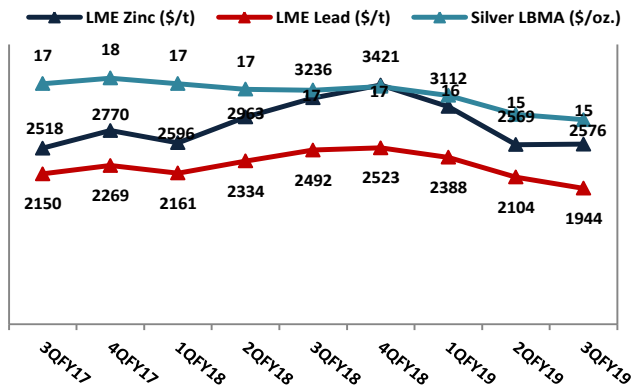
## Exhibit: Zinc CoP Trend

zinc CoP has decreased by 4% QoQ primarily on account of higher volume, operational efficiency and lower diesel....



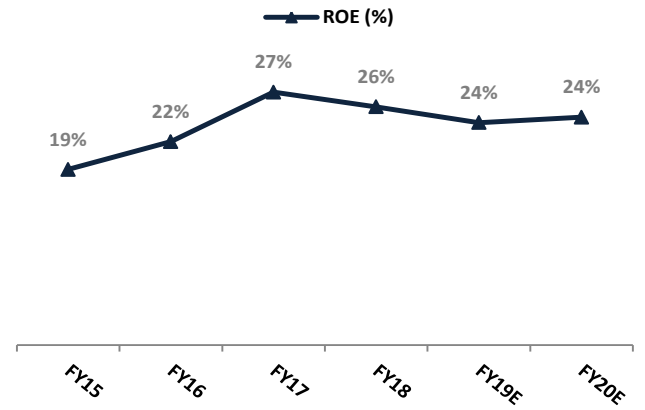
## Exhibit: Zinc, Lead and Silver Price Trend

LME zinc and lead and silver prices all remain subdued, with zinc prices hovering around USD2570/t for last 2 quarters....



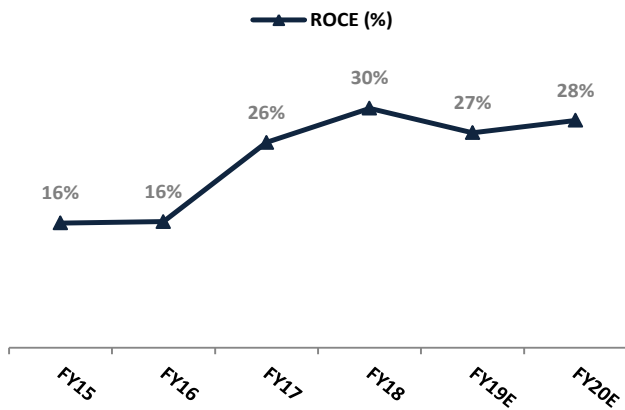
## Exhibit: ROE Trend

ROE expected to be flat in FY20 vs. FY19



## Exhibit: ROCE Trend

ROCE is expected to improve slightly in FY20 over FY19....



## Financial Details

### Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Share Capital</b>	<b>845</b>	<b>845</b>	<b>845</b>	<b>845</b>	<b>845</b>	<b>845</b>	<b>845</b>	<b>845</b>
Reserves	31,431	36,573	42,508	36,540	29,960	35,087	33,381	37,930
Networth	32,276	37,418	43,353	37,385	30,805	35,932	34,226	38,775
Debt	0	-	-	-	7,908	-	-	-
<b>Other Non Cur Liab</b>	<b>28</b>	<b>56</b>	<b>132</b>	<b>563</b>	<b>556</b>	<b>792</b>	<b>792</b>	<b>792</b>
Total Capital Employed	32,276	37,418	43,353	37,385	38,713	35,932	34,226	38,775
Net Fixed Assets (incl CWIP)	9,566	10,688	11,451	12,813	13,064	14,522	15,341	15,962
Non Cur Investments	2.7	2.8	-	-	-	-	-	-
Other Non Cur Asst	239	-	-	952	1,315	1,137	932	932
Non Curr Assets	11,706	13,630	15,788	16,282	17,146	18,789	19,220	20,090
<b>Inventory</b>	<b>1,111</b>	<b>1,198</b>	<b>1,212</b>	<b>1,058</b>	<b>1,936</b>	<b>1,379</b>	<b>1,784</b>	<b>2,758</b>
Debtors	403	400	659	107	136	184	181	210
Cash & Bank	6,942	3,031	3,532	53	8,380	1,964	540	450
Other Curr Assets	393	630	184	467	408	382	513	594
Curr Assets	23,760	28,046	33,204	36,913	34,649	24,143	21,929	26,524
Creditors	484	510	631	931	1,205	947	931	1,079
Provisions (both)	825	1,016	1,312	49	128	220	219	232
Other Curr Liab	572	1,018	1,046	3,504	2,327	1,713	1,684	1,952
Curr Liabilities	<b>1,881</b>	<b>2,545</b>	<b>2,988</b>	<b>15,127</b>	<b>12,322</b>	<b>6,005</b>	<b>5,905</b>	<b>6,819</b>
Net Curr Assets	21,878	25,502	30,216	21,786	22,327	18,138	16,025	19,704
Total Assets	35,465	41,677	48,992	53,195	51,795	42,932	41,149	46,614

### Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	12,700	13,636	14,788	14,181	17,273	22,084	21,704	25,163
Change (%)	11%	7%	8%	-4%	22%	28%	-2%	16%
Other Income	2,032	1,899	2,821	2,763	2,474	1,751	1,555	1,607
EBITDA	6,482	6,900	7,420	6,652	9,739	12,272	11,005	13,030
Change (%)	7%	6%	8%	-10%	46%	26%	-10%	18%
Margin (%)	51%	51%	50%	47%	56%	56%	51%	52%
Depr & Amor.	647	785	644	745	1,811	1,483	1,781	1,979
EBIT	5,835	6,115	6,775	5,907	7,928	10,789	9,225	11,051
Int. & other fin. Cost	29	45	24	17	202	283	66	-
EBT	7,838	7,970	9,573	8,653	10,200	12,257	10,714	12,657
Exp Item	18	-	3	30	-	240	-	-
Tax	921	1,065	1,392	448	1,884	3,221	2,534	3,164
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	6,899	6,905	8,178	8,175	8,316	9,276	8,181	9,493
Adjusted PAT	6,899	6,905	8,178	8,173	8,371	9,196	8,181	9,493
Change (%)	25%	0%	18%	0%	2%	12%	-12%	16%
Margin(%)	54%	51%	55%	58%	48%	42%	38%	38%

## Financial Details

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	21%	18%	19%	22%	27%	26%	24%	24%
ROCE	18%	16%	16%	16%	26%	30%	27%	28%
Asset Turnover	0.4	0.3	0.3	0.3	0.3	0.5	0.5	0.5
Debtor Days	10.6	11.6	10.7	16.3	2.8	2.9	3.0	3.0
Inv Days	25.5	31.9	32.1	29.9	27.2	40.9	22.8	30.0
Payable Days	13.1	13.9	13.7	15.6	24.0	25.5	15.7	15.7
Int Coverage	201	136	288	349	39	38	140	-
P/E	7	8	8	9	15	14	14	12
Price / Book Value	2	1	2	2	4	4	3	3
EV/EBITDA	4.6	4.2	5.1	6.4	9.2	8.6	8.5	6.9
FCF per Share	7.1	8.8	9.3	11.6	13.2	16.8	17.1	20.0
Div Yield	2%	2%	2%	3%	10%	3%	7%	4%

### Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>PBT</b>	7,820	7,970	9,570	8,623	10,200	12,497	10,714	12,657
<i>(inc)/Dec in Working Capital</i>	(183)	125	95	1,632	198	494	(220)	(419)
<i>Non Cash Op Exp</i>	(1,280)	(979)	(2,101)	(1,982)	(483)	142	1,847	1,979
<i>Int Paid (+)</i>	29	45	24	10	191	283	66	-
<i>Tax Paid</i>	(1,606)	(1,645)	(2,033)	(1,822)	(2,338)	(3,028)	(2,534)	(3,164)
<i>others</i>								
<b>CF from Op. Activities</b>	4,752	5,471	5,531	6,451	7,577	9,837	9,807	11,053
<i>(inc)/Dec in FA &amp; CWIP</i>	(1,756)	(1,748)	(1,617)	(1,550)	(2,008)	(2,733)	(2,600)	(2,600)
<i>Free Cashflow</i>	2,996	3,723	3,913	4,901	5,569	7,104	7,207	8,453
<i>(Pur)/Sale of Inv</i>	(629)	(6,825)	(2,285)	(5,692)	13,665	4,620	1,322	(3,600)
<i>others</i>								
<b>CF from Inv. Activities</b>	(3,234)	(3,955)	(3,807)	(3,236)	3,816	2,396	(1,278)	(6,200)
<i>inc/(dec) in NW</i>	-	-	-	-	-	-	-	-
<i>inc/(dec) in Debt</i>	-	-	-	-	7,900	(7,900)	-	-
<i>Int. Paid</i>	(29)	(45)	(24)	(10)	(183)	(280)	(66)	-
<i>Div Paid (inc tax)</i>	(1,228)	(1,532)	(1,879)	(3,204)	(18,972)	(10,469)	(9,887)	(4,943)
<i>others</i>								
<b>CF from Fin. Activities</b>	(1,257)	(1,577)	(1,902)	(3,214)	(11,255)	(18,649)	(9,953)	(4,943)
<i>Inc(Dec) in Cash</i>	261	(62)	(178)	1	138	(6,416)	(1,424)	(90)
<i>Add: Opening Balance</i>	29	290	228	50	51	8,380	1,964	540
<b>Closing Balance</b>	290	228	50	51	189	1,964	540	450

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