

Result Update	BUY
CMP	131
Target Price	148
Previous Target Price	148
Upside	13%
Change from Previous	0%

Market Data

BSE Code	500188
NSE Symbol	HINDZINC
52wk Range H/L	142/94
Mkt Capital (Rs Crores)	55541
Average Daily Volume (Nos.)	5554
Nifty	6695

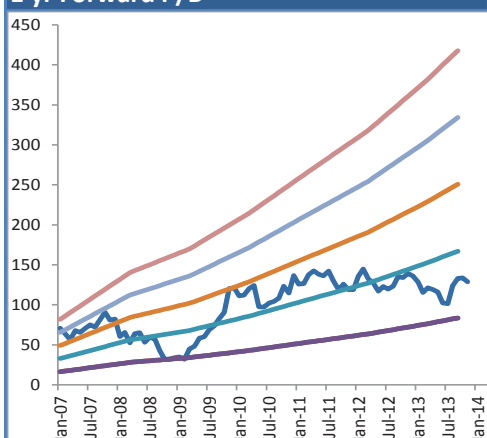
Stock Performance-%

	1M	1yr	YTD
Absolute	4.3	-1.7	-3.4
Rel. to Nifty	0.0	9.2	11.3

Share Holding Pattern-%

	3QFY14	2QFY14	1QFY14
Promoters	64.9	64.9	64.9
FII	1.8	1.8	1.5
DII	31.4	31.4	31.5
Others	1.8	1.8	2.1

1 yr Forward P/B



Source - Comapany/EastWind Research

Rising cash, a drag or an opportunity?

HZ has been able to accumulate cash over the years and as of 3Q14 has cash of INR 224bn (57/ share) which is equivalent to 50% of its market capitalization. Such cash accumulation has come in because of its low cost operations and its inability to expand inorganically. We see that its rising cash is pulling down overall return ratios and this will continue until GOI's stake sale. The opportunity of expanding inorganically arises, only post stake sale. GOI's 29.5% stake in HZ could imply that this cash could largely be utilized for only organic expansion. We take notice of HZ losing out on not being able to expand inorganically through its books.

Dividend payout has been rising which should be to the investors liking. From 8.6% in FY06, the dividend payout in FY13 is now at 22% . We believe that deployment avenues for this cash remain limited. The capex p.a. is 20% of its expected EBITDA, which really is not big. This opens up the scope of higher payouts or inorganic expansion, going forward.

Robust Q3FY14 Performance :

Hindustan Zinc's (HZL) Q3FY14 performance was inline to our estimates on the back of healthy zinc sales volumes and higher metal premiums. Total operating income for Q3FY14 stood at Rs. 3450.1 crore higher by 8.6% YoY but lower by 3.1% QoQ. Total zinc sales in Q3FY14 came in at 196,000 tonne, up 17% YoY and 2% QoQ . The company realised premium on metal sales amounting to \$241/tonne for zinc (Zn) & \$305/tonne for lead (Pb) . Lead sales volume for the quarter stood at 23500 tonnes (lower by 24% QoQ and 22% YoY), while silver sales volumes stood at 78500 kg (lower by 31% YoY and 14% QoQ) . EBITDA came in at Rs.1823.8 crore and inline to our estimate of Rs. 1829.6 crore. Subsequently, net profit stood at Rs. 1722.7 crore .

Valuation & Recommendation

Zinc fundamentals are becoming attractive with supportive lead prices brings a positive outlook for Hindustan Zinc. With a cash-rich balance sheet and strong visibility over production growth of zinc, lead and silver over FY2013-15, we are positive on HZL. Being an integrated & dominant player in the domestic industry with low cost of production, the company is poised to benefit in the long run. Now the stock is trading at 1.6x in one year forward P/B we estimated it at 1.8x for 2015. At current level we see a significant growth in the stock. We valued & reaffirm our positive stance on HZL and assign a BUY rating to the stock with a target price of Rs. 148/-.

Financials :	Q3FY14	Y-o-Y %	Q-o-Q %	Q3FY13	Q2FY14
Net Revenue	3450	8.6	-9.8	3178	3826
EBITDA	1824	22.1	-3.1	1494	1883
Depreciation	210	18.6	12.9	177	186
Tax	305	50.2	20.1	203	254
	1723	6.8	5.1	1613	1640

(In Crs)

Hindustan Zinc LTD.

Lower Production Guideline

HZL has marginally downward revised its mined metal production guidance for FY14 from 950,000 tonnes earlier to 900,000 tonnes. This reflects slower-than-expected ramp up of underground mining projects and some changes in mining sequence wherein preference has been given to primary mine development during this period.

Key Concerns

- A. Volatile Desel Price and high Sulphuric acid price affecting the company,s PAT adversely.
- B. A reason to wait and watch , is since the government is looking at auction, how much will Vedanta be able to garner and what price it is willing to pay is not known.
- C. HZL's revenues are directly linked with the global market for products essentially, Zinc and Lead which are priced with reference to LME prices and Silver to LBMA (London Bullion Metal Association) prices.
- D. Lower than expected demand by galvanizing industries for zinc and industrial batteries, car batteries industries for lead would affect the company estimates.
- E. Disruptions in mining due to equipment failures, unexpected maintenance problems , non-availability of raw materials of appropriate price, quantity and quality for energy requirements, disruptions to or increased cost of transport services or strikes and industrial actions or disputes.

Key Triggers for Growth

- A. Company is tracking on 95% capacity utilization.
- B. Captive plants enjoy the lower Tax rate and company enjoys zero tax from tax free geographycal areas.
- C. Smelting Plants are improvised and management is confident that the smelting plants will maintain their stance for the coming quarters also.
- D. The Rampura Agucha underground mine project is operational via ramps (tunnel driven downward from the surface) and commercial production already ramp up in Q3 and will in Q4 of FY14 . The Kayad mine project will also commence commercial production in the current fiscal year.
- E. A cash-rich balance sheet, low cost of production and inexpensive valuations make HZL an attractive bet at the current price levels.
- F. Disinvestment of government's remaining stake in Hindustan Zinc and Bharat Aluminium (Balco) will happen next fiscal year .
- G. In the past Vedanta Group has said it wanted majority control when Vedanta had earlier offered Rs 149 a share . If this is any benchmark,then investors will stand to gain.
- H. Zinc premium reaches six year high as inventories shrink
- I. Fees that zinc smelter charge to refine the metat that probably to increase 5%.

Hindustan Zinc LTD.

P/L PERFORMANCE	FY11	FY12	FY13	FY14E
Net Revenue from Operation	9912	11405	12700	13577
Other Income	979	1543	2032	1787
Total Income	10891	12948	14732	15364
Power, fuel & water	1023	1228	1070	1291
Repairs	492	568	696	707
Expenditure	4417	5336	6218	6484
EBITDA	5496	6069	6482	7093
Depreciation	475	611	647	718
Interest Cost	19	14	29	37
Net tax expense / (benefit)	1059	1419	921	1097
PAT	4900	5526	6899	6967
ROE%	22.0	21.0	21.0	19.0

B/S PERFORMANCE	FY10	FY11	FY12	FY13
Share capital	423	845	845	845
Reserve & Surplus	17701	21688	26036	31431
Total equity	18124	22533	26881	32276
Trade payables	478	475	410	484
Short-term provisions	340	567	504	825
Total liabilities	<u>20238</u>	<u>25053</u>	<u>29485</u>	<u>35465</u>
Intangibles	109	109	47	10
Tangible assets	6071	7145	8466	8474
Capital work-in-progress	1113	875	445	1082
Long-term loans and advances	361	594	876	1898
Inventories	452	762	798	1111
Trade receivables	152	209	332	403
Cash and bank balances	928	5633	5255	6942
Short-term loans and advances	96	158	233	373
Total Assets	<u>20238</u>	<u>25053</u>	<u>29485</u>	<u>35465</u>

RATIOS	FY10	FY11	FY12	FY13
P/B	3.2	2.2	2.1	1.7
EPS	95.6	11.6	13.1	16.3
Debtor to Turnover%	1.9	2.1	2.9	3.2
Creditors to Turnover%	6.0	4.8	3.6	3.8
Inventories to Turnover%	0.6	0.8	0.7	0.9

CASH FLOWS	FY10	FY11	FY12	FY13
Cash from Operation	4001	4483	4553	4935
Changes In Working Capital	77	-212	-61	-183
Net Cash From Operation	4077	4272	4492	4752
Cash From Investment	-3881	-3658	-3499	-3234
Cash from Finance	-187	-363	-1242	-1257
Net Cash Flow during year	8	250	-248	262