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Hindustan Zinc Limited

Industry	ZINC
Bloomberg	HZ IN
BSE CODE	500188

Zinc volume continues to be low, change in zinc/lead grade ratio a concern....

RATING	NEUTRAL
CMP	272
Price Target	248
Potential Upside	-9%

Rating Change	⟷
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	321/243
Mkt Capital (Rs Cr)	114992
Free float (%)	5%
Avg. Vol 1M (,000)	594
No. of Shares (Crore)	423
Promoters Pledged %	0%

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4QFY19 Result Update

- 4QFY19 revenue came in at Rs.5491cr (down 12.5% YoY and 15 QoQ), EBITDA was at Rs.2789cr (down 23% YoY and 1.7% QoQ) primarily on account of lower zinc volume at 175kt (down 15% QoQ) and lower realization.
- Mined metal production for the quarter was at 245kt (down 4%YoY and 1%QoQ) and refined zinc and lead production was at 175kt (down 15%YoY and 7%QoQ) and 53kt (up 6%YoY, down 2%QoQ) respectively.Silver volume at 191kt (up 12%YoY and 7%QoQ).
- Zinc Cost of production for the quarter was at USD987/t(Rs.69545/t) vs. USD997/t (Rs.71855/t) in 3QFY19 on account of lower imported coal and diesel cost and higher linkage coal volume, offset by higher mine development expense and lower volume.
- Zinc CoP is expected to be under USD975-USD1000/t led by volume growth which would get offset by accelerated mine development.
- Depreciation cost was at Rs.553cr (up 20% YoY and 13% QoQ), due to higher capitalization and increase UG ore production leading to higher amortization. Finance cost for the quarter came in at Rs.51cr (up 13% YoY, flat QoQ).
- Geotechnical issue at the start of 4QFY19 led to lower mined metal in Jan'19 -Feb'19.
- During the quarter company commissioned crusher at Sindesar Khurd mine for hauling waste and commissioned 2mt mill at Zawar. Production shaft, crusher and conveyor system at Rampura Agucha mine are expected to commission in Sep'19, paste fill plant at Zawar is expected to get commission by mid-FY20, fumer at Chanderia is expected to get commissioned shortly.
- Both mined metal and finished metal production in FY20 is expected to be higher than FY19 and is expected to be above 1mt (12% growth), silver production is expected to be around 750MT-800MT in FY20.

View and Valuation

Hndzinc's 4QFY19 revenue came in at Rs.5491cr (down 12.5% YoY and 1% QoQ), YoY decline is primarily on account of lower zinc volume at 175kt (down 15% YoY and 7% QoQ) coupled with lower zinc realization. Lower zinc content in ore, stagnant mined metal volume due to conversion from open cast operation to underground operation and geotechnical issues at mine impacting volume in Jan-Feb'19 have led to lower zinc volume in the quarter. We have reduced our FY20e Revenue/EBITDA/PAT estimate by 11%/15%/16% to factor in lower volume and higher cost, lower volume assumption is on account of change in grade mix which is reflected with higher lead ratio in ore as compare to zinc content. However, lead and silver volume are expected to register healthy growth going forward. We expect revenue to remain flat and PAT CAGR of -7% over FY18-20e. We maintain our **NEUTRAL stance on the stock with target price of Rs.248 (7.5x FY20e EV/EBITDA).**

Key Risks to our rating and target

- High volatility in LME Zinc prices and lower than expected volume growth.
- Changing zinc and lead ratio in ore is a concern.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	14181	17273	22084	21118	22281
EBITDA	6652	9739	12272	10670	11131
EBIT	5907	7928	10789	8787	9077
PAT	8175	8316	9276	7956	8035
EPS (Rs)	19	20	22	19	19
EPS growth	0%	2%	10%	-15%	2%
ROE (%)	22%	27%	26%	23%	22%
ROCE (%)	16%	26%	30%	26%	25%
BV	88	73	85	80	87
P/B (X)	2.07	3.96	3.54	3.48	3.13
P/E (x)	9.49	14.58	13.83	14.85	14.31

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4QFY19 Results

Zinc volume declined QoQ but prices improved sequentially after falling for last 3 quarters....

Financials	*4QFY18*	*1QFY19*	*2QFY19*	*3QFY19*	*4QFY19*	*YoY %*	*QoQ%*	*FY18*	*FY19*	*YoY %*
Net Sales	6277	5310	4777	5540	5491	***-12.5%***	***-0.9%***	22,084	21,118	***-4.4%***
Other Income	486	299	394	550	539	***11%***	***-2.0%***	1,751	1,782	***1.8%***
Total Income	6763	5609	5171	6090	6030	***-11%***	***-1.0%***	23,835	22,900	***-3.9%***
COGS	18	41	-105	-25	25	***39%***	-	498	(64)	-
Staff Cost	182	232	245	215	213	***17%***	***-0.9%***	776	905	***16.6%***
Other Exp.	1186	1253	1237	1349	1378	***16%***	***2.1%***	4,238	5,221	***23.2%***
Expenditure	2657	2597	2443	2702	2702	***2%***	***0.0%***	9,812	10,448	***6.5%***
EBITDA	3620	2713	2334	2838	2789	***-23%***	***-1.7%***	12,272	10,670	***-13.1%***
Depreciation	459	387	454	489	553	***20%***	***13.1%***	1,483	1,883	***27.0%***
EBIT	3161	2326	1880	2349	2236	***-29%***	***-4.8%***	10,789	8,787	***-18.6%***
Interest	45	15	0	51	51	***13%***	-	283	113	***-60.1%***
PBT	3602	2610	2274	2848	2724	***-24%***	***-4.4%***	12,257	10,456	***-15%***
Excpt. Item	-51	0	0	0	0	-	-	240	-	-
Tax	1046	692	459	637	712	***-32%***	***11.8%***	3,221	2,500	***-22%***
PAT	2505	1918	1815	2211	2012	***-20%***	***-9.0%***	9,276	7,956	***-14%***

Operating Matrix

Volume/Prices	*1QFY18*	*2QFY18*	*3QFY18*	*4QFY18*	*1QFY19*	*2QFY19*	*3QFY19*	*4QFY19*	*YoY %*
Refined Zinc ('000 tons)	194	192	200	206	172	162	188	175	***-15.0%***
Zinc LME (USD/ton)	2596	2963	3236	3421	3112	2569	2576	2783	***-18.6%***
Refined Lead('000 tons)	35	38	46	50	42	49	54	53	***6.0%***
Lead LME (USD/ton)	2161	2334	2492	2523	2388	2104	1944	2083	***-17.4%***
Silver (tons)	115	140	132	170	138	172	178	191	***12.4%***
Silver LBMA (USD/oz.)	17	17	17	17	16	15	15	16	***-7.1%***

Significant fall in EBITDA on YoY basis

EBITDA for the qarter came in at Rs.2789cr (down23% YoY and 1.7% QoQ), EBITDA margins stood at 50.8% (vs. 57.7% in 4QFY18 and 51.2% in 3QFY19). YoY fall in EBITDA has been significant on account of substantial fall in zinc volume and realization too. Zinc volume at 175kt is down 15% YoY, and realization at USD2990/t is 14% YoY. However lower power and fuel cost on QoQ basis on account of lower imported coal and diesel prices and higher linkage coal volume have helped to reduce the fall in EBITDA margin caused by lower zinc volume on QoQ basis.

Change in grade mix and operational issues impacted zinc volume in FY19

4QFY19 zinc volume at 175kt (down 15% YoY and 7% QoQ) and in FY19 at 695kt (down 12%) continue to remain impacted by zinc/lead grade ratio (recently the ratio of lead content has improved as compare to zinc content in the ore), operational issues due to transition from open cast operation to fully underground operations. However, going ahead the growth rate would improve on account of base effect as starting from 1QFY19 production volume is only from underground mines, which till 4QFY18 also included some production from opencast mines.

Realizations for the entire three segments saw improvement on QoQ basis

Zinc and lead realization though significantly lower on YoY basis saw QoQ improvement after continuously falling for 3 quarters starting 1QFY19. Zinc realization at around USD 2990/t (down 14% YoY, improved 6% QoQ) and lead realization at USD 2165/t (down 20% YoY, improved 7% QoQ). Commodity prices in FY19 got impacted by global trade tension, however in case of zinc reducing global inventory have led to rebound in prices. Management stated that inventory level has come down to as low as 2-3 days of consumption against average of 25 days of inventory, this should support zinc prices and prices are expected to remain around USD3000/t in coming months. Silver realization have also improved QoQ to USD 15.69/oz. (down 5% YoY, up 5% QoQ).

Production guidance and targets

Both mined metal and finished metal production in FY20 will be higher than FY19 and is expected to be above 1mt (12% growth), silver production is expected to be around 750MT-800MT. Production target for Sindesar Khurd mine is set at 6mt, target for Rampura Agucha is around 4.2mt, Rajpura Dariba target is 1.3-1.4mt for FY20.

Conference call highlights

Zinc Market:

- Zinc market continue to remain very tight, zinc prices increase in quarter as LME inventory continue to decline. Zinc inventory level currently is at historical low of 2-3 days of global consumption (much below the average of 25 days). During 4QFY19 major floods were observed in Australia leading to disruption in zinc supply , slow ramp up at high profile mining projects have led to limited availability of metal. Zinc Consumption remain positive in China led Infra and construction and huge demand from one road one belt as well as zinc intensive markets in emerging markets have also supported consumption.
- LME zinc is expected to remain above USD 3000/t in coming months.

Operational Performance:

- MIC production from UG mines increased by 24% YoY to 245kt in 4QFY19 and 29% to 936 in FY19.
- RA mine operated 4mt run rate in 4QFY19 (vs.3mt in 4QFY18) delivering 60% higher production during the year. SK mine operated at 5.6mt run rate in the quarter (vs. 5mt in 4QFY18). Rajpura Dariba mine crossed 1mt of annual production in FY19 and operated 1.3mt run rate during the quarter. Both SK and RD mine achieved 20% higher ore production in FY19. Zaraw mine operating at around 3mt run rate, and delivered 30% higher production in FY19. Kayad is operating at rated capacity of 1.2mt in FY19.
- Retrofitting of pyro metallurgical smelter in FY19 considering higher lead content in the ore resulted in higher lead (up 18% in FY19 to 198kt) and silver production (up 22% inFY19 to 679 MT) as well.
- Total integrated metal production for FY19 was at 894kt (down 7%), on annual basis zinc production declined to 696kt (down 12%) while lead production increased. Integrated metal production metal production was lower 6% QoQ and 15% YoY
- Company faced Geotechnical issues at the start of 4QFY19 which led to lower mined output in Jan'19 and Feb'19. However, Mar'19 performance was better and exit run rate of 1.2mt was achieved.
- During the quarter commissioned underground crusher at Sindesar Khurd mine for hauling waste and will be used from June'19. SK achieved mine development of 5.1km in 4QFY19, management expects to achieve target production of 6mt with commissioning of shaft and mine development.
- Rampura Agucha mine achieved a mine development of 7.3km in 4QFY19. Production shaft, crusher and conveyor system are expected to commission in Sep'19. Ramp up of mine to 4.5mt is on line. Target from RA mine is around 4.2mt for FY20.Company commissioned 2nd paste fill plant at RA mine.
- Zawar achieved total mine development of 8.6km (up 15% YoY), commissioned 2mt mill at zawar in 4QFY19, paste fill plant expected to commission by mid-FY20 will increase the potential of mining .
- At Rajpura Dariba mine mine development was at 2.1km, company is upgrading the existing production shaft from 0.7mt to 1.3mt by end of FY20. Target is around 1.3-1.4mt for FY20. New mill of 1.5mt and paste fill plant is expected to commission in 12 months.
- Fumer at Chanderia is expected to get commissioned in a month; it will produce 6.2kt of zinc and lead metal, 32 MT of silver.
- Company at 679 MT of silver production is the 9th largest producer of silver in the world. It expects to be among top 5 global silver producers in the next 2 years.
- Company has received environment clearance for expanding silver capacity from 600MT to 800MT at Pantnagar.
- As part of ongoing expansion of smelter capacity, company has debottlenecked the smelter to 1.07mt. Total metal capacity is expected to increase to 1.13mt by 3QFY20.
- Production guidance for FY20 – Expect to reach to 1.2mt of designed capacity by the end of 2QFY20. Company will debottleneck the smelter capacity to 1.07mt and will increase the capacity to 1.13mt. Both mined metal and finished metal production in FY20 will be higher than FY19 and is expected to be above 1mt (12% growth), silver production is expected to be around 750MT-800MT.

Financial performance:

- Revenue at Rs.5491cr was down 13% YoY and 1% QoQ. YoY fall was on account of lower metal prices and zinc volume and QoQ fall was due to higher metal price and scrap sales offset by lower metal volume and rupee appreciation.
- Zinc Cost of production (CoP) in 4QFY19 was at USD 987/t (Rs.69545/t) improving by 1% (3% in Rs) QoQ and higher by 7% (17% in Rs) YoY. QoQ improvement was due to lower imported coal & diesel prices and higher linkage volume, offset by higher mine development expense and lower volume. YoY increase due to higher mine development cost & employee cost, lower volume and rupee depreciation, offset by higher acid and other credits.
- Depreciation has increased due to higher capitalization and increase UG ore production leading to higher amortization.
- Company is aiming to double the share of VAP products from 13% currently to 25% in FY20.
- Zinc CoP is expected to be under USD975-USD1000/t led by volume growth which would get offset by accelerated mine development.
- Gross investment was at Rs.19490cr as on 31st Mar'19, net investment was at Rs.16953cr due to temporary borrowings to pay dividend.
- Capex in FY19 was USD330mn and FY20capex is expected to be around USD350-400mn.
- Outlook- During FY20 company expects to commission production shaft at RA and RD mine, paste fill plant at SK, RD and Zawar, dry tailing plant at Zawar and SK, fumer at Chanderiya and a mill at RD.

Exhibit: Net Sales and Growth Trend

Lower zinc volume coupled with lower realization led to de-growth in revenue….

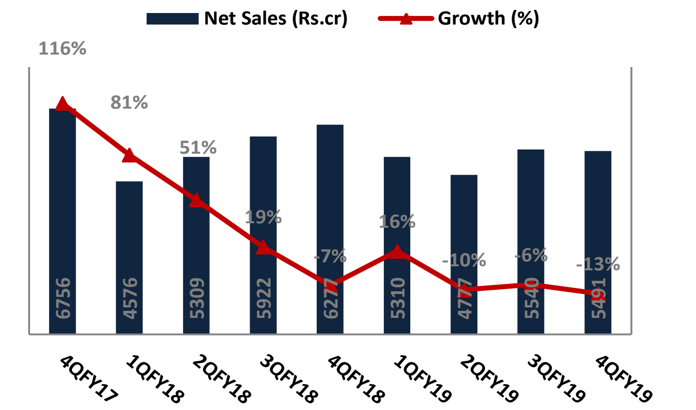


Exhibit: EBITDA and EBITDA Margin Trend

Lower imported coal and higher linkage volume coupled with better QoQ realization helped to maintain margins QoQ….

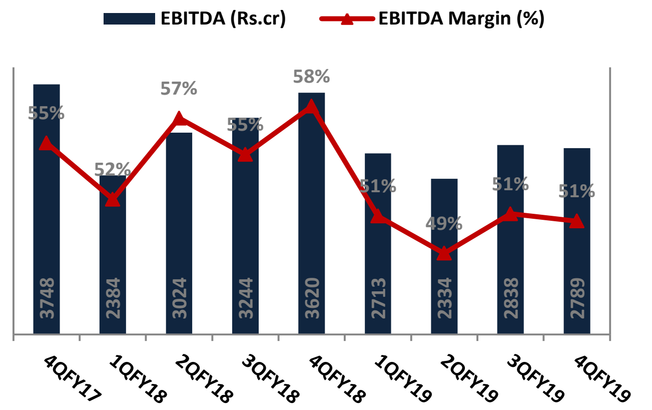


Exhibit: PAT and PAT Margin Trend

PAT margin declined due to higher depreciation and higher effective tax rate….

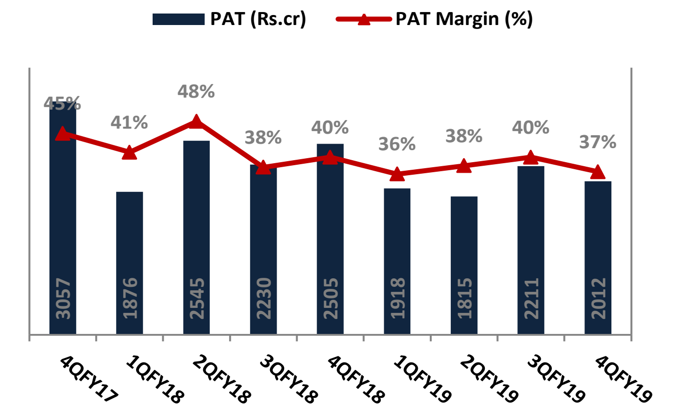


Exhibit: Total Mined Metal Production

Total mined metal down 4% YoY and 1% QoQ , base effect will help to improve growth rate going forward….

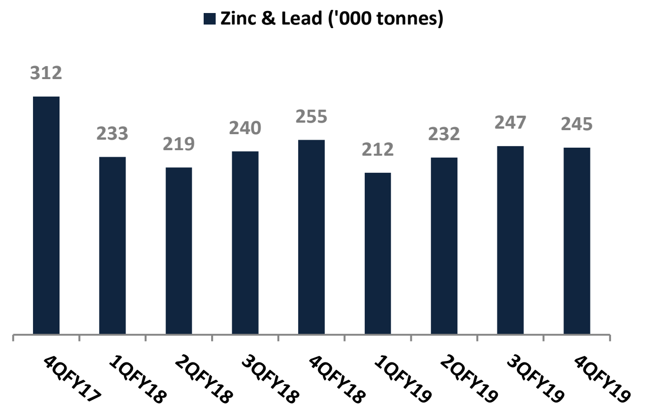


Exhibit: Zinc Volume and Realization Trend

Volume continues to remain low, realization improved slightly on QoQ basis….

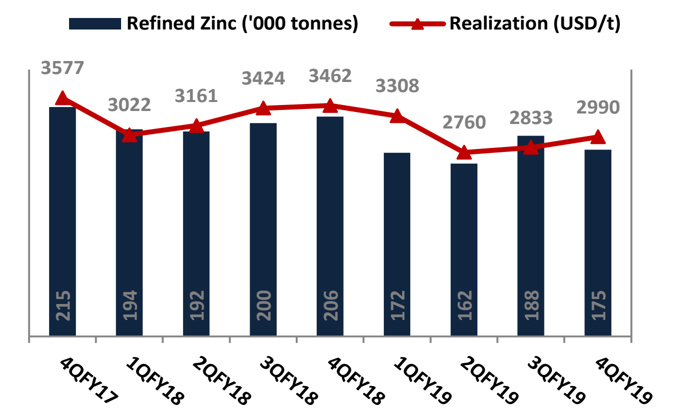


Exhibit: Lead Volume and Realization Trend

Higher ratio of lead in ore has helped lead volume throughout FY19….

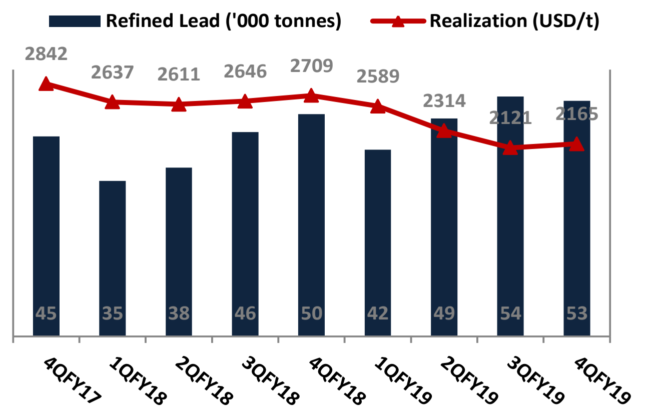


Exhibit: Silver Volume and Realiation Trend

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

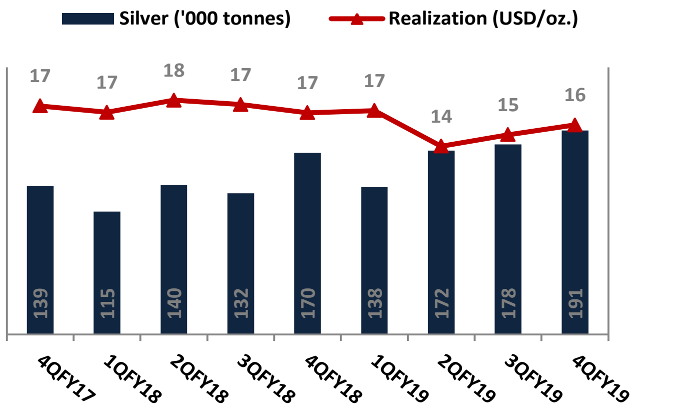


Exhibit: Zinc CoP Trend

CoP decline slightly on account of lower imported coal & diesel prices and higher linkage coal….

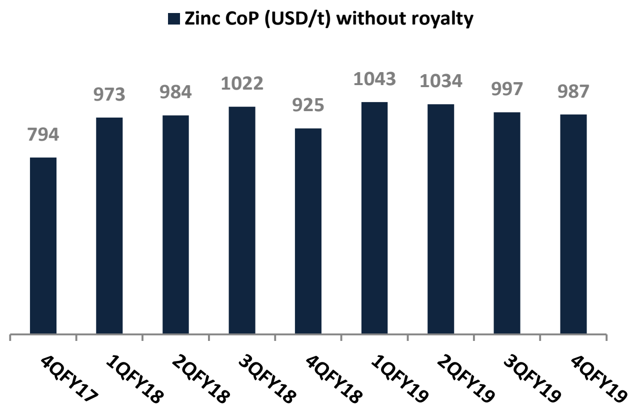


Exhibit: Zinc, Lead and Silver Price Trend

Prices increased in 4QFY19 after continuously falling for last 4 quarters….

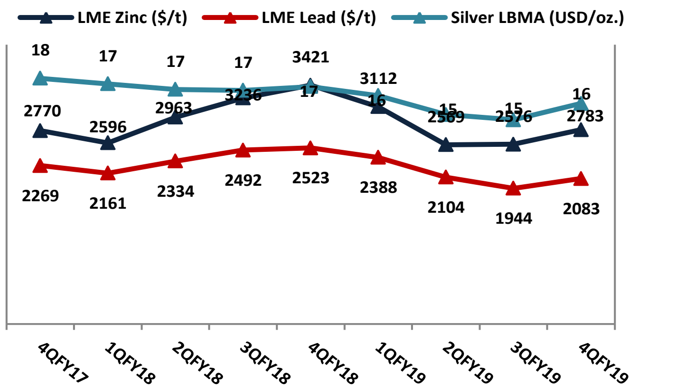


Exhibit: ROE Trend

ROE is expected to fall in FY20 as well…

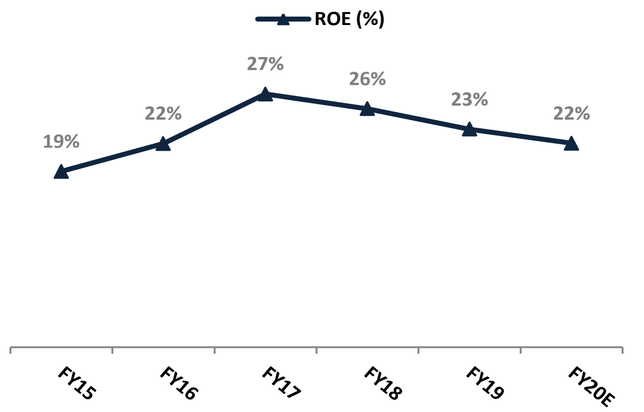
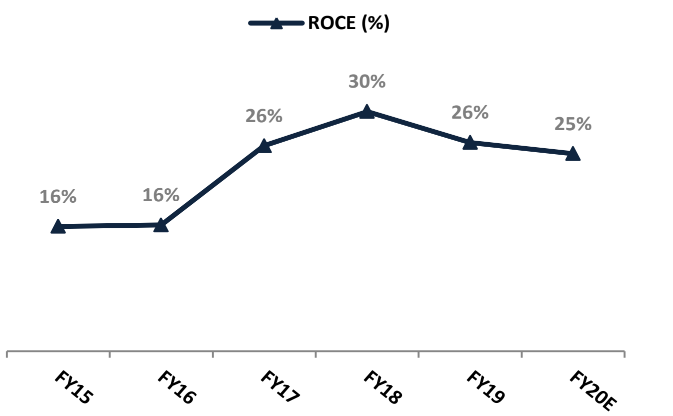


Exhibit: ROCE Trend

ROCE is also expected to follow the trend of ROE….



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	**845**	**845**	**845**	**845**	**845**	**845**	**845**	**845**
Reserves	*31,431*	*36,573*	*42,508*	*36,540*	*29,960*	*35,087*	*32,760*	*35,851*
Networth	32,276	37,418	43,353	37,385	30,805	35,932	33,605	36,696
Debt	0	-	-	-	7,908	-	2,538	-
Other Non Cur Liab	**28**	**56**	**132**	**563**	**556**	**792**	**945**	**945**
Total Capital Employed	*32,276*	*37,418*	*43,353*	*37,385*	*38,713*	*35,932*	*36,143*	*36,696*
Net Fixed Assets (incl CWIP)	9,566	10,688	11,451	12,813	13,064	14,522	17,032	17,589
Non Cur Investments	*2.7*	*2.8*	-	-	-	-	-	-
Other Non Cur Asst	239	-	-	952	1,315	1,137	638	638
Non Curr Assets	11,706	13,630	15,788	16,282	17,146	18,789	20,886	21,028
Inventory	**1,111**	**1,198**	**1,212**	**1,058**	**1,936**	**1,379**	**1,544**	**1,648**
Debtors	**403**	**400**	**659**	**107**	**136**	**184**	**196**	**186**
Cash & Bank	6,942	3,031	3,532	53	8,380	1,964	23	450
Other Curr Assets	393	630	184	467	408	382	314	526
Curr Assets	23,760	28,046	33,204	36,913	34,649	24,143	21,572	22,815
Creditors	484	510	631	931	1,205	947	1,174	955
Provisons (both)	825	1,016	1,312	49	128	220	219	212
Other Curr Liab	572	1,018	1,046	3,504	2,327	1,713	2,397	1,728
Curr Liabilities	**1,881**	**2,545**	**2,988**	**15,127**	**12,322**	**6,005**	**5,206**	**6,048**
Net Curr Assets	21,878	25,502	30,216	21,786	22,327	18,138	16,366	16,767
Total Assets	35,465	41,677	48,992	53,195	51,795	42,932	42,458	43,843

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	12,700	13,636	14,788	14,181	17,273	22,084	21,118	22,281
Change (%)	11%	7%	8%	-4%	22%	28%	-4%	6%
Other Income	2,032	1,899	2,821	2,763	2,474	1,751	1,782	1,636
EBITDA	6,482	6,900	7,420	6,652	9,739	12,272	10,670	11,131
Change (%)	7%	6%	8%	-10%	46%	26%	-13%	4%
Margin (%)	51%	51%	50%	47%	56%	56%	51%	50%
Depr & Amor.	647	785	644	745	1,811	1,483	1,883	2,054
EBIT	5,835	6,115	6,775	5,907	7,928	10,789	8,787	9,077
Int. & other fin. Cost	29	45	24	17	202	283	113	-
EBT	7,838	7,970	9,573	8,653	10,200	12,257	10,456	10,713
Exp Item	18	-	3	30	-	240	-	-
Tax	921	1,065	1,392	448	1,884	3,221	2,500	2,678
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	6,899	6,905	8,178	8,175	8,316	9,276	7,956	8,035
Adjusted PAT	6,917	6,905	8,181	8,205	8,316	9,036	7,956	8,035
Change (%)	25%	0%	18%	0%	2%	12%	-14%	1%
Margin(%)	54%	51%	55%	58%	48%	42%	38%	36%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	21%	18%	19%	22%	27%	26%	23%	22%
ROCE	18%	16%	16%	16%	26%	30%	26%	25%
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	3.4
Inv Days	25.5	31.9	32.1	29.9	27.2	40.9	22.8	26.7
Payable Days	13.1	13.9	13.7	15.6	24.0	25.5	15.7	20.3
Int Coverage	201	136	288	349	39	38	78	-
P/E	7.4	7.9	8.4	9.5	14.6	13.8	14.9	14.3
Price / Book Value	1.6	1.4	1.6	2.1	4.0	3.5	3.5	3.1
EV/EBITDA	4.6	4.2	5.1	6.4	9.2	8.6	9.1	8.5
FCF per Share	7.1	8.8	9.3	11.6	13.2	16.8	12.3	19.9
Div Yield	2%	2%	2%	3%	10%	3%	7%	4%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	7,820	7,970	9,570	8,623	10,200	12,497	10,456	10,713
(inc)/Dec in Working Capital	(183)	125	95	1,632	198	494	(376)	943
Non Cash Op Exp	(1,280)	(979)	(2,101)	(1,982)	(483)	142	1,996	2,054
Int Paid (+)	29	45	24	10	191	283	113	-
Tax Paid	(1,606)	(1,645)	(2,033)	(1,822)	(2,338)	(3,028)	(2,500)	(2,678)
others								
CF from Op. Activities	4,752	5,471	5,531	6,451	7,577	9,837	9,576	11,031
(inc)/Dec in FA & CWIP	(1,756)	(1,748)	(1,617)	(1,550)	(2,008)	(2,733)	(4,393)	(2,611)
Free Cashflow	2,996	3,723	3,913	4,901	5,569	7,104	5,183	8,420
(Pur)/Sale of Inv	(629)	(6,825)	(2,285)	(5,692)	13,665	4,620	734	(512)
others								
CF from Inv. Activities	(3,234)	(3,955)	(3,807)	(3,236)	3,816	2,396	(3,659)	(3,123)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	-	-	-	-	7,900	(7,900)	2,538	(2,538)
Int. Paid	(29)	(45)	(24)	(10)	(183)	(280)	(113)	-
Div Paid (inc tax)	(1,228)	(1,532)	(1,879)	(3,204)	(18,972)	(10,469)	(9,887)	(4,943)
others								
CF from Fin. Activities	(1,257)	(1,577)	(1,902)	(3,214)	(11,255)	(18,649)	(7,462)	(7,481)
Inc(Dec) in Cash	261	(62)	(178)	1	138	(6,416)	(1,545)	427
Add: Opening Balance	29	290	228	50	51	8,380	1,964	23
Closing Balance	290	228	50	51	189	1,964	419	450

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL

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