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ZINC
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Lower metal prices and flat zinc volume impacted YoY performance....

1QFY20 Result Update

- 1QFY20 revenue was at Rs.4987cr down 6.1% YoY primarily on account of lower zinc, lead and silver prices on YoY basis.
- 1QFY20 zinc volume was at 172kt (flat YoY), lead volume in the quarter was at 48kt (up 14.3% YoY) and silver volume for the quarter was at 159 tonnes (up 15% YoY).
- Realization for zinc, lead and silver in the quarter was at USD2933/t (down 11% YoY), USD2048/t (down 21% YoY) and USD14.76/oz. (down 12% YoY) respectively.
- Zinc CoP for the quarter was at USD1067/t (Rs.74219/t) up 2% YoY (6% in Rs.) and 8% QoQ (7% in Rs). CoP was higher on account of higher power cost, lower ore grades, higher mine development and higher prices for input commodities like cement.
- EBITDA for the quarter was at Rs.2477cr (down 8.7% YoY) and EBITDA margin was at 49.7% (vs.51.1% in 1QFY19). YoY fall in EBITDA is on account of lower metal prices, higher power cost and higher other expenses which was partly offset by lower employee cost.
- Employee cost for the quarter was at Rs.182cr (down 21.6% YoY and 14.6% QoQ), it was lower on account of Rs.20cr one off due to reversal of incentive and bonus provisions.
- Depreciation in the quarter was at Rs.534cr (up 38% YoY and down 3.4% QoQ).
- PAT for the quarter was at Rs.1765cr (down 8% YoY) and effective tax rate was at 24.7% (vs. 26.5% in 1QFY19).
- Management maintained its guidance of mined metal and finished metal production in FY20 to be higher than FY19 and is expected to be above 1mt, FY20 silver production at 750MT-800MT and zinc CoP of around USD1000/t.

View and Valuation

Hind Zinc's 1QFY20 revenue came in at Rs.4987cr (down 6.1% YoY) and EBITDA at Rs.2477cr (down 8.7% YoY) due to lower metal prices. 1QFY20 average LME zinc was around USD2719/t (down 12.6% YoY) and currently zinc price is around USD2425/t, though zinc price have seen significant correction but the zinc market continues to remain tight and is expected to remain in deficit over near future which is expected to provide the support to zinc prices. We broadly maintain our FY19 and FY20 estimates. The recent price correction in stock have made the stock look attractive, however, due to highly volatile zinc prices and around 2% CAGR in zinc volume over FY18-21e we maintain our **NEUTRAL stance on the stock with an unchanged target price of Rs.258 (7x FY21e 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.

RATING	NEUTRAL
CMP	220
Price Target	258
Potential Upside	17%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	309/218
Mkt Capital (Rs Cr)	92851
Free float (%)	5%
Avg. Vol 1M (,000)	784
No. of Shares (Crs)	423
Promoters Pledged %	0

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KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	17273	22084	21118	22102	24559
EBITDA	9739	12272	10670	11258	12462
EBIT	7928	10789	8787	9204	10180
PAT	8316	9276	7956	8201	9101
EPS (Rs)	20	22	19	19	22
EPS growth (%)	2%	10%	-15%	4%	11%
ROE (%)	27%	26%	23%	22%	22%
ROCE (%)	26%	30%	26%	25%	25%
BV	72.91	85.04	79.53	87.24	97.08
P/B (X)	3.96	3.54	3.48	2.52	2.26
P/E (x)	14.58	13.83	14.85	11.32	10.20

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Zinc volume flat YoY, lead and silver continue to grow stongly....

1QFY20 Results

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	5310	4777	5540	5491	4987	-6.1%	-9.2%	22,084	21,118	-4.4%
Other Income	299	394	550	539	429	43.5%	-20.4%	1,751	1,782	1.8%
Total Income	5609	5171	6090	6030	5416	-3.4%	-10.2%	23,835	22,900	-3.9%
COGS	41	-105	-25	25	-6	-115%	-	498	(64)	-
Staff Cost	232	245	215	213	182	-21.6%	-14.6%	776	905	16.6%
Other Exp.	1253	1237	1349	1378	1295	3.4%	-6.0%	4,238	5,221	23.2%
Expenditure	2597	2443	2702	2702	2510	-3.4%	-7.1%	9,812	10,448	6.5%
EBITDA	2713	2334	2838	2789	2477	-8.7%	-11.2%	12,272	10,670	-13.1%
EBITDAmargin	51.1%	48.9%	51.2%	50.8%	49.7%	-2.8%	-2.2%	55.6%	50.5%	-9.1%
Depreciation	387	454	489	553	534	38.0%	-3.4%	1,483	1,883	27.0%
EBIT	2326	1880	2349	2236	1943	-16.5%	-13.1%	10,789	8,787	-18.6%
Interest	15	0	51	51	29	93.3%	-	283	113	-60.1%
PBT	2610	2274	2848	2724	2343	-10.2%	-14.0%	12,257	10,456	-14.7%
Excpt. Item	0	0	0	0	0	0.0%	-	240	-	-
Tax	692	459	637	712	578	-16.5%	-18.8%	3,221	2,500	-22.4%
PAT	1918	1815	2211	2012	1765	-8.0%	-12.3%	9,276	7,956	-14.2%

Operating Matrix

VOLUME/PRICES	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %
Refined Zinc ('000 tons)	192	200	206	172	162	188	175	172	0.0%
Zinc LME (USD/ton)	2963	3236	3421	3112	2569	2576	2783	2719	-12.6%
Refined Lead('000 tons)	38	46	50	42	49	54	53	48	14.3%
Lead LME (USD/ton)	2334	2492	2523	2388	2104	1944	2083	1872	-21.6%
Silver (tons)	140	132	170	138	172	178	191	159	15.2%
Silver LBMA (USD/oz.)	17	17	17	16	15	15	16	15	-9.0%

Zinc volume flat YoY

Zinc volume in 1QFY20 was at 172kt (flat YoY, down 1.7% QoQ). Flat YoY volume was on account of lower grades in ore produced and QoQ fall was on account of lower mined metal and annual maintenance shutdown at smelters which was partly offset by WIP conversion. Mined metal production was at 213kt (up 0.5% YoY, down 13.1% QoQ), though ore production was higher by 10% but it was offset by lower grades which led to muted YoY growth and QoQ decline was due to lower ore treatment. Lead volume in the quarter was at 48kt (up 14.3% YoY, down 9.4% QoQ) and silver volume was at 159kt (up 15.2% YoY, down 16.8% QoQ), silver production was higher on the back of higher lead volume.

Lower metal prices led to fall in EBITDA

EBITDA for the quarter was at Rs.2477cr (down 8.7% YoY and 11.2% QoQ) and EBITDA margin for the quarter was at 49.7% (vs. 51.1% in 1QFY19 and 50.8% in 4QFY19), YoY fall in EBITDA was primarily on account of lower metal prices with zinc, lead and silver realization falling by 11%, 21% and 12% respectively which was partly offset by lower employee cost due to one off gain of Rs.20cr due to reversal of incentive and bonus provision. However, power cost increased in the quarter to 8.9% of sales (vs.8.3% in 1QFY19 and 7% in 4QFY19), power cost was higher due to lower power production because of water scarcity caused by less rain last year and delayed monsoon which led to higher purchase of power from market.

Other updates:

- During the quarter, company paid off the remaining Rs.2000cr of commercial paper and cash and cash equivalents at the end of the quarter was at Rs.18258cr.
- On power there is proposed increased electricity cess by Rajasthan govt. from Rs.0.40/unit to Rs.1/unit. Management is expecting partial rollback on Rs.0.6/unit increase in the cess. However, the Rs.0.6/unit increase could result into USD 35/t cost increase.
- At SK, shaft has fully commissioned it will help in volume ramp up to 6mt, shaft project at RA is at advanced stage and is expected to commission early 3QFY20 (earlier expected to commission by end of 2QFY20). Fumer plant is expected to commission soon which will help in producing 35 tonnes of incremental silver every year.

Concall highlights**Zinc Market:**

- Despite recent price decline management is positive about zinc market fundamentals driven by low global exchange stock at 5 days of global consumption currently. Chinese zinc production is falling short of market expectations and overall global metal supply is constraint due to production issues. There are no major capacity additions of smelter in pipeline and supplying on the mining side is seen growing at smaller pace than expected. Therefore the global market is in deficit and is expected to remain in deficit next two years. Demand outlook is balanced, primarily driven by emerging economies demand for zinc in infrastructure and housing. Low global stock and balanced demand points towards higher zinc prices. In India construction segment is driving the growth for zinc and account for 58% of zinc consumption and it continues to show strong growth. Share of VAP product is expected to increase from 15% in FY19 to 25% in FY20 and to over 50% in next two years.

Operational Performance:

- Total ore production in the quarter was up 10% YoY with strong growth at RA mine, Zawar and RD mines. On sequential basis ore production was down 5% due to lower production at RA, SK caused by temporary geotechnical challenges and consequent changes in mine plan.
- Mined metal production at 213kt (up 1% YoY) grew slower than ore production due to lower grades.
- Refined lead and silver production continues to show strong gain on YoY basis with double digit growth, integrated lead production was up 13% YoY to 48kt and silver production increased to 159 tonnes (up 15% YoY). Refined Zinc production was flat YoY at 172kt. sequentially integrated metal production was down due to lower mined metal and annual maintenance shutdown at smelters partly offset by WIP conversion.
- Expect to achieve 1.2mt of mined metal capacity in 3QFY20, debottlenecking of smelter to 1.13mt will be completed in 2QFY20 and further debottlenecking to 1.2mt is underway which will help company to achieve higher production in 2HFY20 and in FY21.
- Reserves and Resources at the end of FY19 was 403mt containing 34.6mt of metal which implies a mine life of over 25 years.
- In FY20 company is focusing in upgrading resources at Zawar mine, Agucha, enhancing R&R of Kayad mining lease, new ore body at SK and Bamnia Kalan.
- Digital transformation of SK and Agucha mine through high bandwidth wifi underground network, real time tracking of assets, system driven path scheduling, data analytics for predictive maintenance and cycle time optimization. This is expected to improve overall effectiveness of equipments by 20% and reduce mining cost by 10%, management expect the system to be in place by the end of FY20.

Financial performance:

- Revenue in the quarter was impacted by lower zinc, lead and silver prices which declined in the range of 10%-21% YoY, which was partly offset by double digit growth in lead and silver volume and rupee depreciation by 5%.
- On cost front imported coal cost continues to decline and company also received higher linkage coal up to 25% of the requirement. However, company produce less power during the quarter due to severe water scarcity caused by less rainfall last year and delayed monsoon. This led to significantly higher power purchase which more than offset the benefit from the lower coal prices in the quarter. Management doesn't expect any more water issue going ahead.
- CoP during the quarter was at USD 1067/t (Rs.74219/t), higher by 8% (7% in Rs) QoQ and 2% (6% in Rs.) YoY. On YoY basis CoP was impacted by lower ore grades, higher mine development and higher prices for input commodities like cement, partly offset by higher metal volume and lower diesel prices. QoQ increase in CoP was mainly on account of higher power cost, lower volume and lower grades.
- EBITDA for the quarter was at Rs.2480cr, down 11% YoY due to lower metal prices, as higher volume and lower manpower cost offset increase in power and other expenses. QoQ decline of 11% was on account of lower volume and higher power cost.
- PAT for the quarter was at Rs.1765cr, down 8% YoY and down 12% QoQ due to lower EBITDA, partly offset by lower tax rate. Higher investment income YoY was on account of MTM gain on investment portfolio.
- 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.
- During the quarter company paid off the remaining Rs.2000cr of commercial paper and cash and cash equivalents at the end of the quarter was at Rs.18258cr.
- On power there is proposed increased electricity cess by Rajasthan govt. from Rs.0.40/unit to Rs.1/unit. Management is expecting partial rollback on Rs.0.6/unit increase in the cess. However, the Rs.0.6/unit increase could result into USD 35/t cost increase.
- Employee cost was down due to one off gain of Rs.20cr due to reversal in incentive provision as well as the bonus provision which were reversed. Employee cost is expected to be in range of Rs.210-220cr per quarter.
- Management maintained yearly CoP guidance of USD1000/t for FY20.

Update on expansion projects

- At SK, shaft is fully commissioned and integrated with mine due to which ore hoisting has commenced, it will help in volume ramp up to 6mt and cost is expected to reduce due to hauling going down. Second paste fill plant at SK is expected to commission in June.
- Shaft project at RA mine is at advanced stage and is expected to commission early 3QFY20 (earlier expected to commission by end of 2QFY20, due to some geotechnical issues), allowing for the incremental volume and lower hauling cost.
- Fumer plant expected to commission soon which will allow company to convert silver in smelter and produce additional 35 tonnes of silver every year.
- Company is upgrading the existing production shaft capacity from 0.7mt to 1.3mt; it is expected to be completed by the end of FY20.
- In next phase of mine expansion from 1.2mt to 1.35mt would cover areas like reserves, production, grade, and ore to metal ratio. Company would also be looking at the potential of some of the existing deposits at Bamnia Kalan, SK, Zavar, RA etc.

Exhibit: Net Sales and Growth Trend

flat zinc volume and lower metal prices led to de-growth in sales....

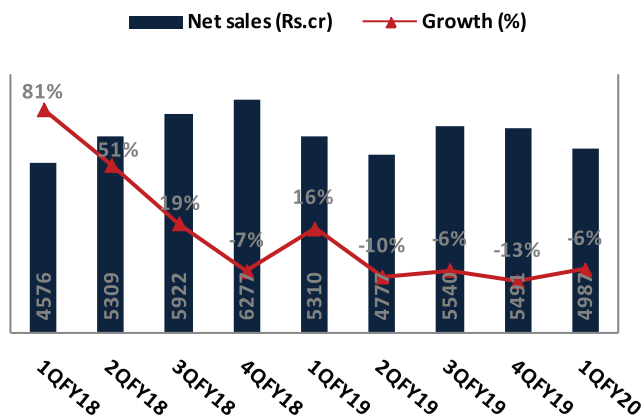


Exhibit: EBITDA and EBITDA Margin Trend

lower metal prices, higher power cost impacted EBITDA....

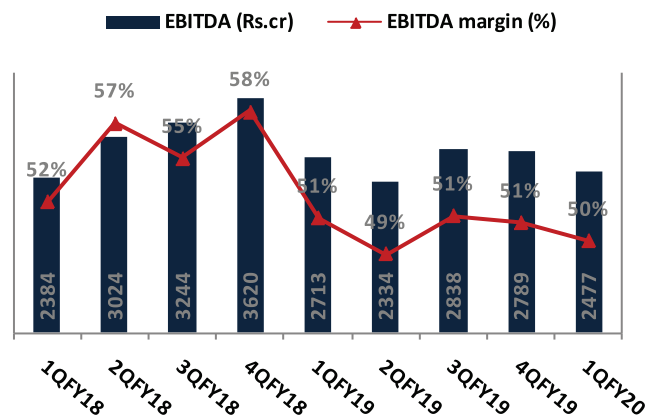


Exhibit: PAT and PAT Margin Trend

lower EBITDA and higher depreciation impacted PAT margin....

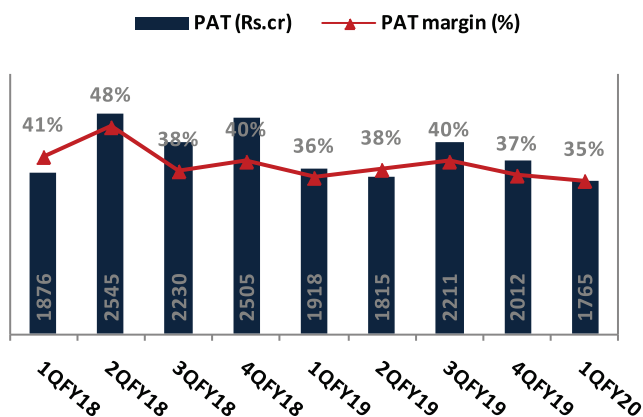


Exhibit: Total Mined Metal Production

total ore production in the quarter was up 10% YoY but lower grades led to flat mined metal production....

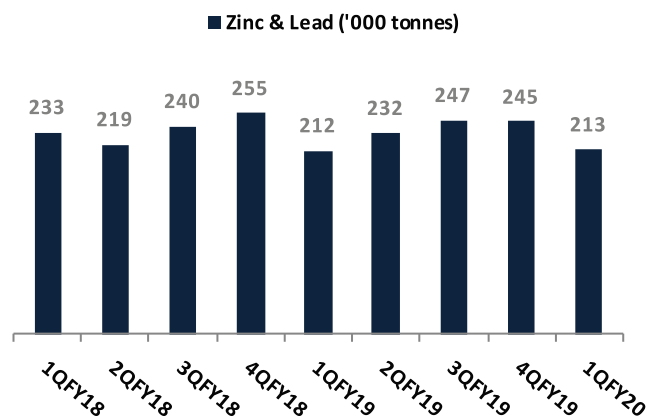


Exhibit: Zinc Volume and Realization Trend

zinc volume remained flat YoY and was lower QoQ, YoY realization down significantly....

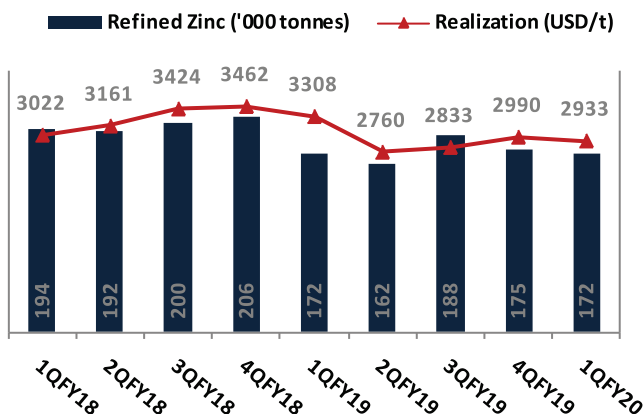


Exhibit: Lead Volume and Realization Trend

lead volume continued to show strong YoY growth but realization is down significantly....

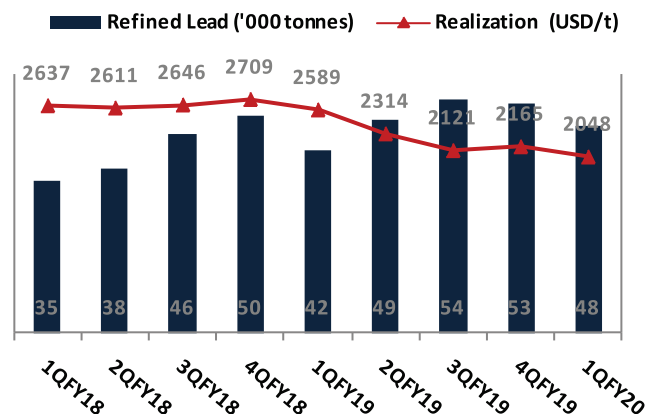


Exhibit: Silver Volume and Realiation Trend

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

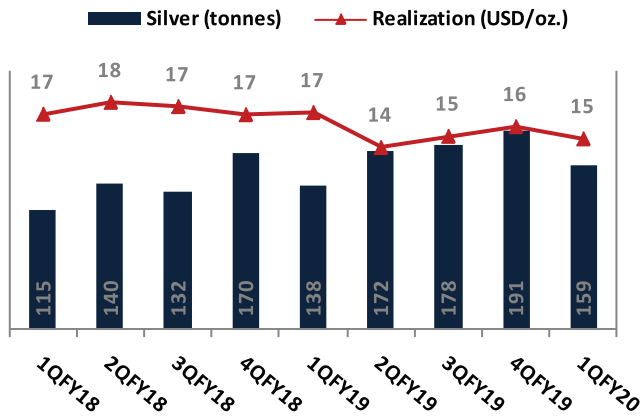


Exhibit: Zinc CoP Trend

higher power cost, lower grades, higher mine development and higher commodity prices impacted CoP....

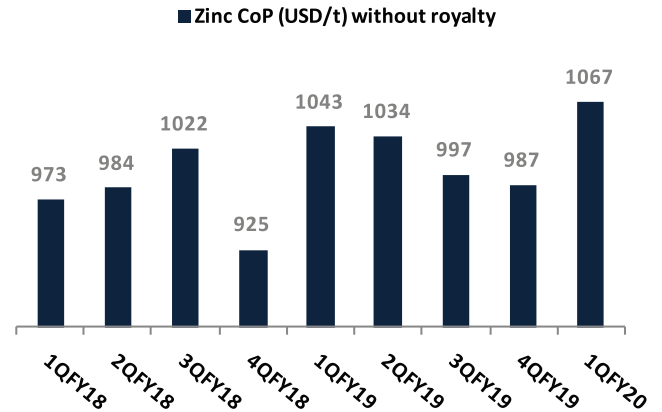


Exhibit: Zinc, Lead and Silver Price Trend

prices continue to remain low....

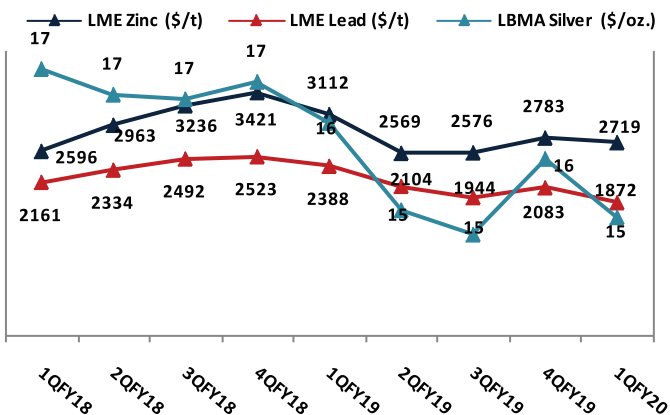


Exhibit: ROE Trend

ROE is expected to fall in FY20 as well....

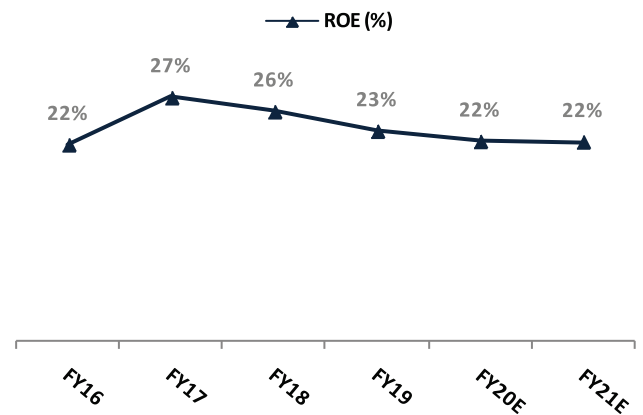
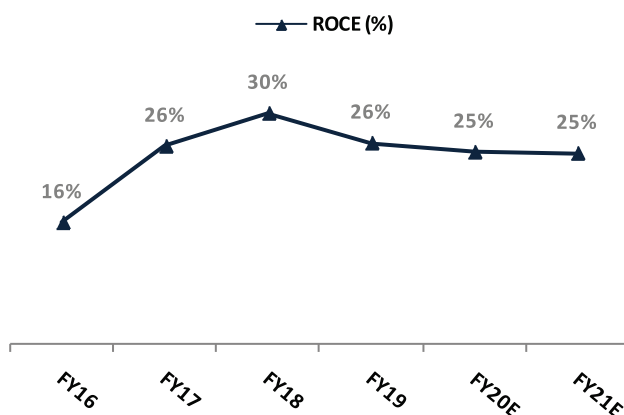


Exhibit: ROCE Trend

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



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	845	845	845	845	845	845	845	845
Reserves	36,573	42,508	36,540	29,960	35,087	32,760	36,016	40,174
Networth	37,418	43,353	37,385	30,805	35,932	33,605	36,861	41,019
Debt	-	-	-	7,908	-	2,538	-	-
Other Non Cur Liab	56	132	563	556	792	945	945	945
Total Capital Employed	37,418	43,353	37,385	38,713	35,932	36,143	36,861	41,019
Net Fixed Assets (incl CWIP)	10,688	11,451	12,813	13,064	14,522	17,032	17,589	17,896
Non Cur Investments	2.8	-	-	-	-	-	-	-
Other Non Cur Asst	-	-	952	1,315	1,137	638	688	1,570
Non Curr Assets	13,630	15,788	16,282	17,146	18,789	20,886	21,164	23,706
Inventory	1,198	1,212	1,058	1,936	1,379	1,544	1,635	1,817
Debtors	400	659	107	136	184	196	184	205
Cash & Bank	3,031	3,532	53	8,380	1,964	23	450	2,448
Other Curr Assets	630	184	467	408	382	314	522	580
Curr Assets	28,046	33,204	36,913	34,649	24,143	21,572	22,796	25,058
Creditors	510	631	931	1,205	947	1,174	948	1,053
Provisons (both)	1,016	1,312	49	128	220	219	211	222
Other Curr Liab	1,018	1,046	3,504	2,327	1,713	2,397	1,714	1,905
Curr Liabilities	2,545	2,988	15,127	12,322	6,005	5,206	6,001	6,636
Net Curr Assets	25,502	30,216	21,786	22,327	18,138	16,366	16,795	18,421
Total Assets	41,677	48,992	53,195	51,795	42,932	42,458	43,960	48,764

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	13,636	14,788	14,181	17,273	22,084	21,118	22,102	24,559
Change (%)	7%	8%	-4%	22%	28%	-4%	5%	11%
Other Income	1,899	2,821	2,763	2,474	1,751	1,782	1,636	1,796
EBITDA	6,900	7,420	6,652	9,739	12,272	10,670	11,258	12,462
Change (%)	6%	8%	-10%	46%	26%	-13%	6%	11%
Margin (%)	51%	50%	47%	56%	56%	51%	51%	51%
Depr & Amor.	785	644	745	1,811	1,483	1,883	2,054	2,282
EBIT	6,115	6,775	5,907	7,928	10,789	8,787	9,204	10,180
Int. & other fin. Cost	45	24	17	202	283	113	29	-
EBT	7,970	9,573	8,653	10,200	12,257	10,456	10,811	11,976
Exp Item	-	3	30	-	240	-	-	-
Tax	1,065	1,392	448	1,884	3,221	2,500	2,610	2,874
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	6,905	8,178	8,175	8,316	9,276	7,956	8,201	9,101
Adjusted PAT	6,905	8,181	8,205	8,316	9,036	7,956	8,201	9,101
Change (%)	0%	18%	0%	2%	12%	-14%	3%	11%
Margin(%)	51%	55%	58%	48%	42%	38%	37%	37%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	18.5%	18.9%	21.9%	27.2%	25.6%	23.4%	22.2%	22.2%
ROCE	16.3%	15.6%	15.8%	25.7%	30.0%	26.1%	25.0%	24.8%
Asset Turnover	0.3	0.3	0.3	0.3	0.5	0.5	0.5	0.5
Debtor Days	11.6	10.7	16.3	2.8	2.9	3.0	3.4	3.0
Inv Days	31.9	32.1	29.9	27.2	40.9	22.8	26.7	27.0
Payable Days	13.9	13.7	15.6	24.0	25.5	15.7	20.3	15.7
Int Coverage	136	288	349	39	38	78	317	-
P/E	7.9	8.4	9.5	14.6	13.8	14.9	11.3	10.2
Price / Book Value	1.4	1.6	2.1	4.0	3.5	3.5	2.5	2.3
EV/EBITDA	4.2	5.1	6.4	9.2	8.6	9.1	6.4	5.6
FCF per Share	8.8	9.3	11.6	13.2	16.8	12.3	20.0	16.4
Div Yield	2.4%	2.3%	3.4%	10.2%	2.7%	7.2%	4.6%	4.6%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	7,970	9,570	8,623	10,200	12,497	10,456	10,811	11,976
(inc)/Dec in Working Capital	125	95	1,632	198	494	(376)	779	(1,852)
Non Cash Op Exp	(979)	(2,101)	(1,982)	(483)	142	1,996	2,083	2,282
Int Paid (+)	45	24	10	191	283	113	29	-
Tax Paid	(1,645)	(2,033)	(1,822)	(2,338)	(3,028)	(2,500)	(2,610)	(2,874)
others								
CF from Op. Activities	5,471	5,531	6,451	7,577	9,837	9,576	11,062	9,532
(inc)/Dec in FA & CWIP	(1,748)	(1,617)	(1,550)	(2,008)	(2,733)	(4,393)	(2,611)	(2,589)
Free Cashflow	3,723	3,913	4,901	5,569	7,104	5,183	8,451	6,943
(Pur)/Sale of Inv	(6,825)	(2,285)	(5,692)	13,665	4,620	734	(512)	(1)
others								
CF from Inv. Activities	(3,955)	(3,807)	(3,236)	3,816	2,396	(3,659)	(3,123)	(2,590)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	-	-	-	7,900	(7,900)	2,538	(2,538)	-
Int. Paid	(45)	(24)	(10)	(183)	(280)	(113)	(29)	-
Div Paid (inc tax)	(1,532)	(1,879)	(3,204)	(18,972)	(10,469)	(9,887)	(4,943)	(4,943)
others								
CF from Fin. Activities	(1,577)	(1,902)	(3,214)	(11,255)	(18,649)	(7,462)	(7,510)	(4,943)
Inc(Dec) in Cash	(62)	(178)	1	138	(6,416)	(1,545)	429	1,998
Add: Opening Balance	290	228	50	51	8,380	1,964	23	450
Closing Balance	228	50	51	189	1,964	419	452	2,448

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Disclosure of Interest Statement-

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