

Industry
Bloomberg
BSE CODE

ZINC
HZ IN
500188

Reduced mined metal production subdued the overall volume guidance for FY20

RATING	NEUTRAL
CMP	210
Price Target	190
Potential Upside	-10%
Rating Change	↓
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	292/193
Mkt Capital (Rs Cr)	89704
Free float (%)	5%
Avg. Vol 1M (,000)	612
No. of Shares (Crs)	423
Promoters Pledged %	0%

3QFY20 Result Update

- HINDZINC reported revenue of Rs. 4672 Cr. (down -15.7% YoY) largely on account of lower production volumes of Zinc and Lead, partly offset by LME prices of lead and Silver.
- Mined metal production during the quarter stood at 235KT (down 5% YoY) while lower grades at Kayad and Sindesar Khurd (SK) mines partly offset by higher ore production. Refined metal production was at 219KT (down 10% YoY) led by reduced lead production due to temporary issue at DSC lead smelter.
- Silver production was 149 MT (down 16% YoY, up 11% QoQ) on account of lower mined metal production, lower lead production and lower silver grades.
- EBITDA for the quarter was Rs. 2289 Cr. with an EBITDA margin of 49% on account of higher cost of production and operating expense. COP increased due to higher mine development expense to secure production profile.
- Imported coal prices improved further in 3QFY20 with the contribution of linkage coal to 22% in the overall mix, lead to decline in the power cost on QoQ basis despite the 50% increase in electricity duty on captive power plant from July 2019 by Rajasthan govt.
- PAT during the quarter was Rs. 1620 Cr. on the back of higher depreciation and amortization on account of higher ore production and higher capitalization.
- Management guidance for mined metal production volumes still remains at 1.2 MT p.a. for FY 21 on the back of capacity expansion plan at various mines and debottlenecking of smelters.

View and Valuation

Decline in mined metal production in 3QFY20 along with lower grades reduced the overall volume guidance for FY20. LME prices of Lead as well as silver in 3QFY20 along with rupee showed some favorable movement towards realization. Despite reduced imported coal prices and higher linkage coal margins contracted on the back of higher fixed cost (which is 35%). Digitalization in mines will reduce the cost of material as per management. Volume guidance of 1.2 MT for FY21 is still expected by management based on the current capacity expansion. Galvanized track for railways along with the government spending on infrastructure will boost the zinc demand in India. We maintain our NEUTRAL stance on the stock with reduced target price of Rs.194 (6.5x 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.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	17273	22084	21118	19038	19438
EBITDA	9739	12272	10670	9173	8810
EBIT	7928	10789	8787	6855	6417
PAT	8316	9276	7956	7072	6313
EPS (Rs)	20	22	19	17	15
EPS growth (%)	2%	10%	-15	-11	-10
ROE (%)	27%	26%	23	20	17
ROCE (%)	26%	30%	26	19	17
BV	72.91	85.04	79.53	84.44	87.68
P/B (X)	3.96	3.54	3.48	2.51	2.42
P/E (x)	14.58	13.83	14.85	12.78	14.21

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Margin Contraction despite lower imported coal prices

3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	5540	5491	4987	4511	4672	-15.7%	3.6%	22,084	21,118	-4.4%
Other Income	550	539	429	590	445	-19.1%	-24.6%	1,751	1,782	1.8%
Total Income	6090	6030	5416	5101	5117	-16.0%	0.3%	23,835	22,900	-3.9%
COGS	-25	25	-6	-14	-171	584%	-	498	(64)	-
Staff Cost	215	213	182	192	201	-6.5%	4.7%	776	905	16.6%
Other Exp.	1349	1378	1295	1264	1336	-1.0%	5.7%	4,238	5,221	23.2%
Expenditure	2702	2702	2510	2394	2383	-11.8%	-0.5%	9,812	10,448	6.5%
EBITDA	2838	2789	2477	2117	2289	-19.3%	8.1%	12,272	10,670	-13.1%
EBITDAmargin	51.2%	50.8%	49.7%	46.9%	49.0%	-4.4%	4.4%	55.6%	50.5%	-9.1%
Depreciation	489	553	534	595	597	22.1%	0.3%	1,483	1,883	27.0%
EBIT	2349	2236	1943	1522	1692	-28.0%	11.2%	10,789	8,787	-18.6%
Interest	51	51	29	25	42	0.0%	-	283	113	-60.1%
PBT	2848	2724	2343	2087	2095	-26.4%	0.4%	12,257	10,456	-14.7%
Excpt. Item	0	0	0	0	0	0.0%	-	240	-	-
Tax	637	712	578	6	475	-25.4%	7817%	3,221	2,500	-22.4%
PAT	2211	2012	1765	2081	1620	-26.7%	-22.2%	9,276	7,956	-14.2%

Operating Matrix

VOLUME/PRICES	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %
Refined Zinc ('000 tons)	206	172	162	188	175	172	166	178	-5.3%
Zinc LME (USD/ton)	3421	3112	2569	2576	2783	2719	2349	2393	-7.1%
Refined Lead('000 tons)	50	42	49	54	53	48	44	41	-24.1%
Lead LME (USD/ton)	2523	2388	2104	1944	2083	1872	2034	2033	4.6%
Silver (tons)	170	138	172	178	191	159	134	149	-16.3%
Silver LBMA (USD/oz.)	17	16	15	15	16	15	15	15	3.4%

Mined metal production in 3QFY20

Reduced mined metal production subdued the overall volume growth for FY20. Refined Zinc volume in 3QFY20 was 178 KT (down 5% YoY, up 7% QoQ) on the back of reduced mined metal production. Lower grades at Kayad and Sindesar Khurd (SK) mine partly offset by higher ore production. However, buildup in refined Zinc inventory also reduced top line in 3QFY20 while it will be added in 4QFY20. Fall in realization by 12% YoY on the back of drop in Zinc LME prices by 7% YoY. Refined Lead volume reduced by 24% YoY was due to temporary issue at DSC lead smelter. However, increase in lead LME prices by 4.5% expanded realization by 5% in 3QFY20. Integrated silver production expanded in 3QFY20 on account of higher silver grade at SK mine moreover, recovery in silver prices also improved realization during the quarter. Management is confident with the volume guidance of 1.2 MT production of mined metal for FY21 on the back of capacity expansion plan.

Higher cost of production contracted margins

Zinc cost of production during the quarter was \$ 1077 per MT while higher production improved the fixed cost leverage. COP increased on account of higher mine development expense to secure production profile. Imported coal prices improved further in 3QFY20 with the contribution of linkage coal to 22% in the overall mix, lead to decline in the power cost on QoQ basis despite the 50% increase in electricity duty on captive power plant from July 2019 by Rajasthan govt. One time R & M expense incurred in Dariba Zinc Smelter due to roster breakdown. However, roster is back in operation and will not impact in 4QFY20 production. A digital collaboration center at Udaipur which brings complete operational data of all over locations on a single analytics platform. This will enable improvement in productivity, equipment and effectiveness and ore to metal ratio. SK mine management has launched advanced analytics to protect and help our equipment's which will help to improve our operating expense upto 10%. Furthermore, under traffic management system has been implemented allowing for improving the turn-around time and safety.

Concall highlights

Industry Outlook

- The negative sentiments prevailed in FY20 initially by US China trade war has reversed key trade deals signed between the two countries, which put Zinc prices high during the quarter.
- The refined zinc market continues to remain in deficit with Zinc demand higher than zinc production by about 500 KT in 2019. The mine production in 2019 was lower by about 600 KT as compare to the expectation in the beginning of the year.
- Due to several reasons, including environment issues in China, slow ramp up of new projects R&R revisions and operational issues. These issues have also impacted mine production estimates in 2020 and 2021 which is now lower by 1 million tonne. Similar trend is seen in smelter production for which estimated production has also been down by 1 million tonne for the next two years vs expectation at the start of 2019.
- Zinc projects adding supplies have a deleterious element like silica, manganese etc. Penalties for impurities along with elevated traded charges at current prices level are stressing margins and will discourage ongoing expansions.
- With China massive road initiative India's strong push run for infrastructure to boost GDP coupled with other infrastructure projects demand for zinc has potential to grow.
- Improving demand through positive momentum from resolution of trade disputes and continuing deficit in Zinc market will support higher zinc prices.
- Prime minister plan to spend about \$ 1.5 trillion to upgrade and built infrastructure the Indian railways is setting target to galvanized rail tracks and speeding up replacement of old tracks with galvanized routes. This has opened a new opportunity to significantly increase zinc demand.

Operational and Financial Performance

- Revenue for the quarter down by 16% YoY based on lower metal production and lower zinc prices while lead and silver prices have recovered. Buildup in refined Zinc inventory also reduced top line in 3QFY20 while it will be added in 4QFY20.
- Imported coal prices improved further in 3QFY20 with the contribution of linkage coal to 22% in the overall mix, lead to decline in the power cost on QoQ basis despite the 50% increase in electricity duty on captive power plant from July 2019 by Rajasthan govt.
- Zinc COP excluding royalty increase to \$ 1077/t while higher production improved the fixed cost leverage. COP increased on account of higher mine development expense to secure production profile.
- One time R & M expense incurred in Dariba Zinc Smelter due to roster breakdown. However, roster is back in operation and will not impact in 4QFY20 production.
- Rampura Agucha mine delivered 22% growth year-to-date and has achieved capacity of 4.1 MT and is expected to achieve a capacity of 4.5 MT p.a. in FY20. Zawar mine continue to deliver strong performance with ore production up 16% on year-to date.
- SK mine started recovering from geo-tech challenges which affected volume and grade during 1HFY20. Both Volume and ore grade improved in 3QFY20 and with Shaft fully operational the mine is set to deliver good performance in 4QFY20.
- Plant is at final phase of mining expansion project to deliver 1.2 MT of mined metal designed capacity at Rampura Agucha Shaft and auxiliary equipment have been commissioned and sorting has begun. Hauling is expected to start in February which will complete the shaft project.
- Final note given by MOEF environment clearance for expansion of Rajpura Dariba mine to increase ore production from 1.08 MT to 2 MT p.a. and ore beneficiation from 1.2 to 2.5 MT p.a. is expected in February.
- Management has set up a digital collaboration center at Udaipur which brings complete operational data of all over locations on a single analytics platform. This will enable improvement in productivity, equipment and effectiveness and ore to metal ratio.
- SK mine management has launched advanced analytics to protect and help our equipment's which will help to improve our operating expense upto 10%. Furthermore, under traffic management system has been implemented allowing for improving the turn-around time and safety.

Update on expansion projects

- In February, ore hauling from Agucha Shaft is expected. The Shaft will also provide an opportunity to provide Galina zone under the shaft.
- At Zawar, the two back filling plant are under commissioning and back filling is expected to commence in February 2020. In addition to improving mine stability, this will help in recovering high grade ore from old pillar at Zawar improving volume and grade.
- The fumer plant at Chanderiya is undergoing hot commissioning and expected to produce first metal by February.
- The debottlenecking of smelters to 1.13 MT was completed during the quarter and further debottlenecking to 1.2 MT is underway.

Exhibit: Net Sales and Growth Trend

Lower volumes and mined metal production fall revenue during the quarter.

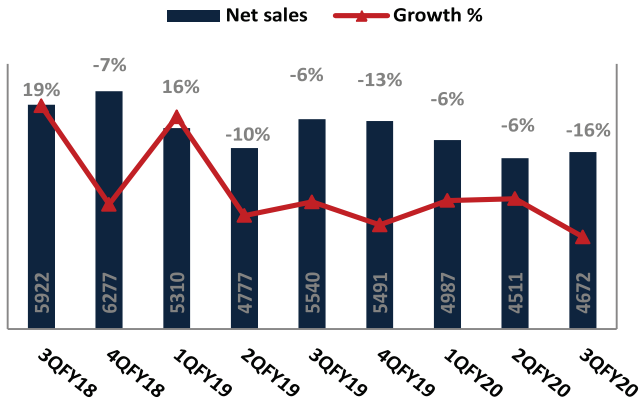


Exhibit: EBITDA and EBITDA Margin Trend

Lower international coal prices sequentially improved margins..

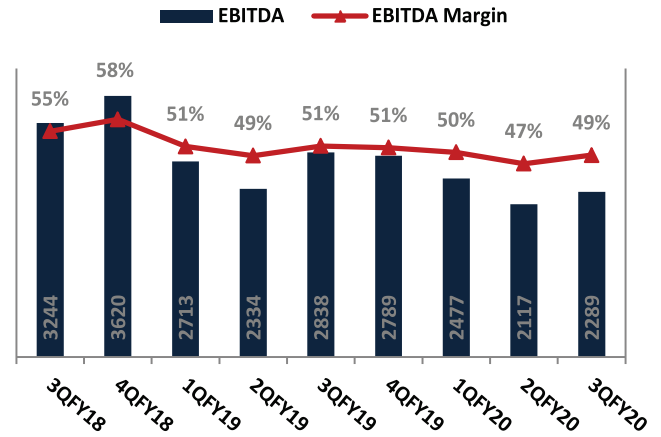


Exhibit: PAT and PAT Margin Trend

Higher depreciation and lower other income reduced PAT in 3QFY20..

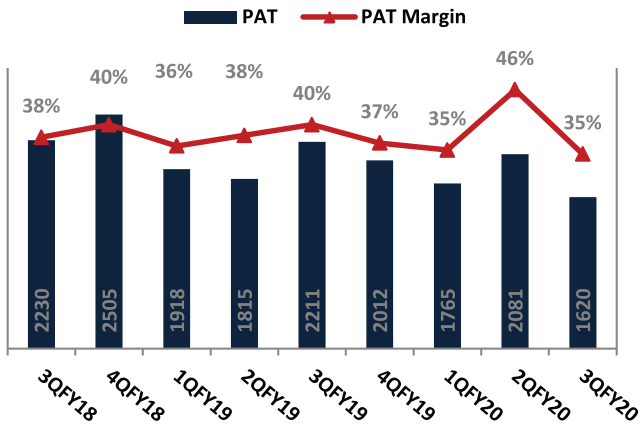


Exhibit: Total Mined Metal Production

Total ore production in the quarter was down and reduced the volume guidance for FY20.

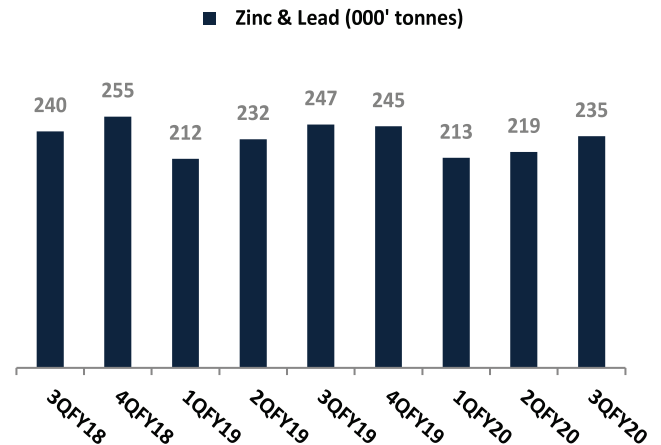


Exhibit: Zinc Volume and Realization Trend

zinc volume declined YoY while improved QoQ based on lower grades at some mine...

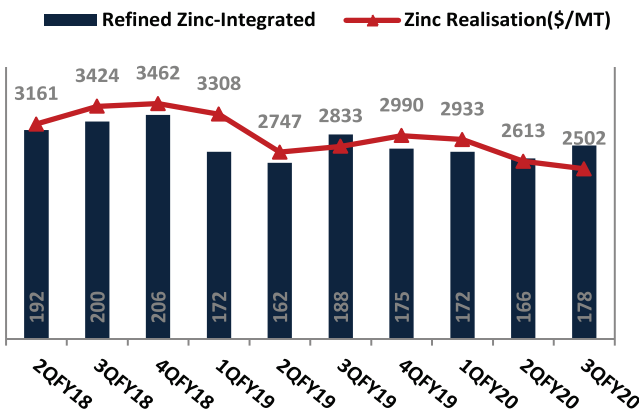


Exhibit: Lead Volume and Realization Trend

lead volume declined YoY while realization improved on YoY basis....

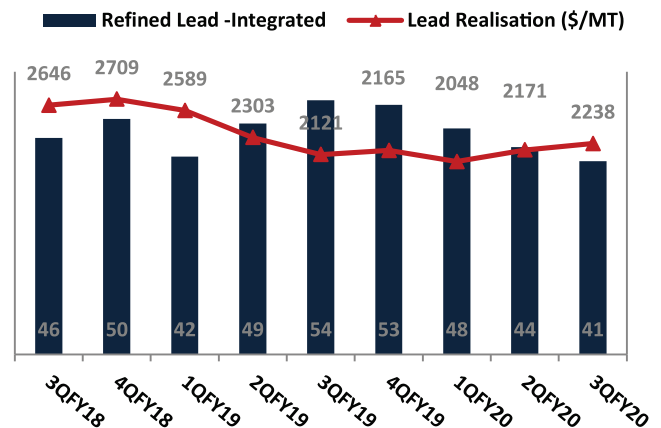


Exhibit: Silver Volume and Realiation Trend

silver volume has been increasing along with its realization during the quarter.....

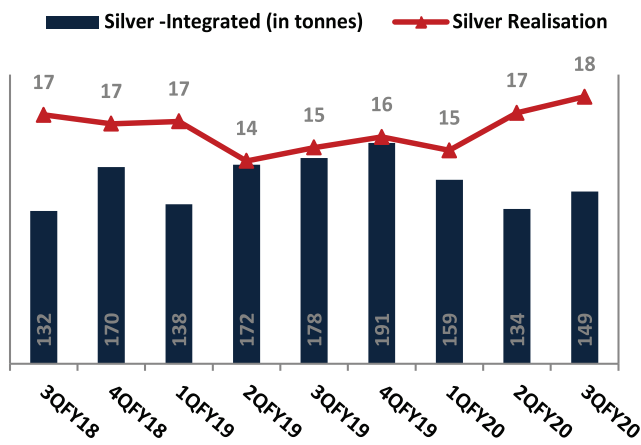


Exhibit: Zinc CoP Trend

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

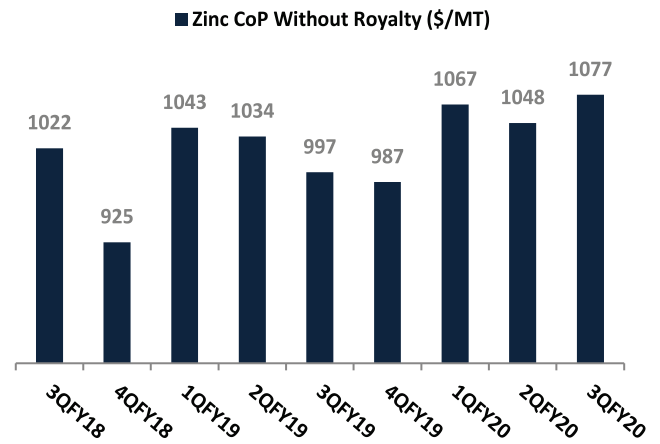


Exhibit: Zinc, Lead and Silver Price Trend

prices continue to remain muted at an overall level..

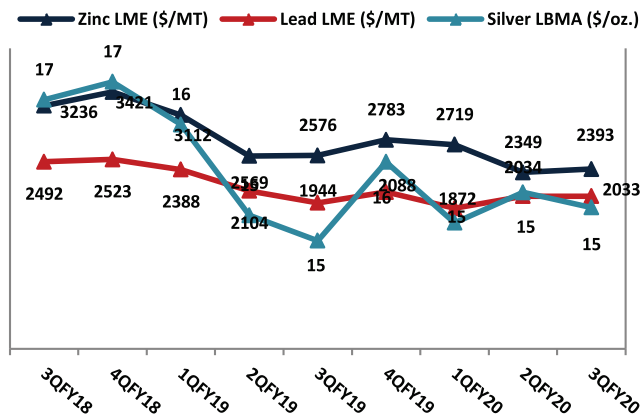


Exhibit: ROE Trend

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

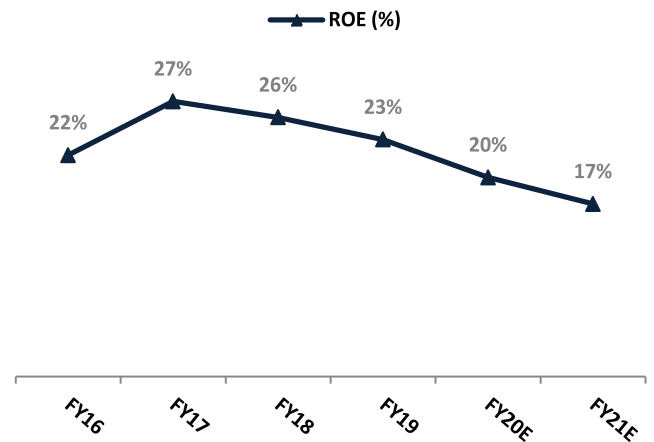
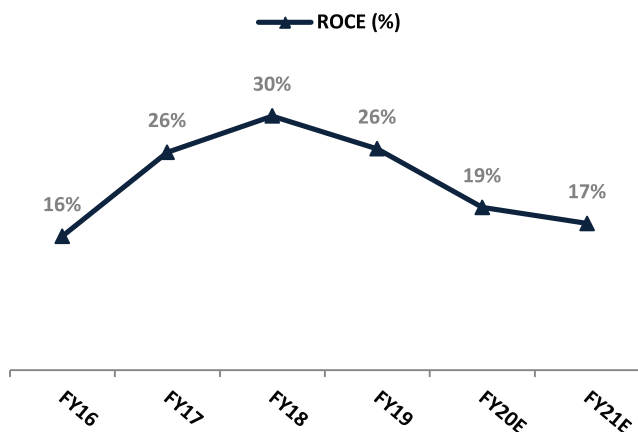


Exhibit: ROCE Trend

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



Financial Details

Balance Sheet

Fig in Rs Cr

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	34,834	36,203
Networth	37,418	43,353	37,385	30,805	35,932	33,605	35,679	37,048
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	35,679	37,048
Net Fixed Assets (incl CWIP)	10,688	11,451	12,813	13,064	14,522	17,032	17,325	17,522
Non Cur Investments	2.8	-	-	-	-	-	-	-
Other Non Cur Asst	-	-	952	1,315	1,137	638	500	500
Non Curr Assets	13,630	15,788	16,282	17,146	18,789	20,886	20,426	20,923
Inventory	1,198	1,212	1,058	1,936	1,379	1,544	1,513	1,544
Debtors	400	659	107	136	184	196	313	320
Cash & Bank	3,031	3,532	53	8,380	1,964	23	61	40
Other Curr Assets	630	184	467	408	382	314	190	194
Curr Assets	28,046	33,204	36,913	34,649	24,143	21,572	21,132	22,105
Creditors	510	631	931	1,205	947	1,174	1,304	1,331
Provisions (both)	1,016	1,312	49	128	220	219	210	221
Other Curr Liab	1,018	1,046	3,504	2,327	1,713	2,397	1,904	1,944
Curr Liabilities	2,545	2,988	15,127	12,322	6,005	5,206	4,782	4,872
Net Curr Assets	25,502	30,216	21,786	22,327	18,138	16,366	16,350	17,233
Total Assets	41,677	48,992	53,195	51,795	42,932	42,458	41,558	43,029

Income Statement

Fig in Rs Cr

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	19,038	19,438
Change (%)	7%	8%	-4%	22%	28%	-4%	-10%	2%
Other Income	1,899	2,821	2,763	2,474	1,751	1,782	1,911	1,804
EBITDA	6,900	7,420	6,652	9,739	12,272	10,670	9,173	8,810
Change (%)	6%	8%	-10%	46%	26%	-13%	-14%	-4%
Margin (%)	51%	50%	47%	56%	56%	51%	48%	45%
Depr & Amor.	785	644	745	1,811	1,483	1,883	2,318	2,392
EBIT	6,115	6,775	5,907	7,928	10,789	8,787	6,855	6,417
Int. & other fin. Cost	45	24	17	202	283	113	128	128
EBT	7,970	9,573	8,653	10,200	12,257	10,456	8,638	8,093
Exp Item	-	3	30	-	240	-	-	-
Tax	1,065	1,392	448	1,884	3,221	2,500	1,566	1,780
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	6,905	8,178	8,175	8,316	9,276	7,956	7,072	6,313
Adjusted PAT	6,905	8,181	8,205	8,316	9,036	7,956	7,072	6,313
Change (%)	0%	18%	0%	2%	12%	-14%	-11%	-11%
Margin(%)	51%	55%	58%	48%	42%	38%	37%	32%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	18.45%	18.86%	21.86%	27.17%	25.59%	23.40%	19.67%	17.04%
ROCE	16.34%	15.63%	15.80%	25.74%	30.03%	26.15%	19.21%	17.32%
Asset Turnover	0.33	0.30	0.27	0.33	0.51	0.50	0.46	0.45
Debtor Days	12	11	16	3	3	3	3	6
Inv Days	32	32	30	27	41	23	27	29
Payable Days	14	14	16	24	25	16	20	25
Int Coverage	136.08	288.19	348.91	39.25	38.12	77.76	53.56	0.00
P/E	7.85	8.36	9.49	14.58	13.83	14.85	12.89	14.33
Price / Book Value	1.45	1.58	2.07	3.96	3.54	3.48	2.54	2.44
EV/EBITDA	4.16	5.07	6.35	9.23	8.55	9.12	7.78	7.99
FCF per Share	8.81	9.26	11.60	13.18	16.81	12.74	17.06	14.20
Div Yield	2.4%	2.3%	3.4%	10.2%	2.7%	7.2%	4.7%	4.7%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	7,970	9,570	8,623	10,200	12,497	10,456	8,583	8,093
(inc)/Dec in Working Capital	125	95	1,632	198	494	(376)	358	(243)
Non Cash Op Exp	(979)	(2,101)	(1,982)	(483)	142	1,996	2,446	2,520
Int Paid (+)	45	24	10	191	283	113	128	128
Tax Paid	(1,645)	(2,033)	(1,822)	(2,338)	(3,028)	(2,500)	(1,566)	(1,780)
others								
CF from Op. Activities	5,471	5,531	6,451	7,577	9,837	9,576	9,820	8,590
(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	7,209	6,001
(Pur)/Sale of Inv	(6,825)	(2,285)	(5,692)	13,665	4,620	734	438	(950)
others								
CF from Inv. Activities	(3,955)	(3,807)	(3,236)	3,816	2,396	(3,659)	(2,173)	(3,539)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	-	-	-	7,900	(7,900)	2,538	(2,538)	-
Int. Paid	(45)	(24)	(10)	(183)	(280)	(113)	(128)	(128)
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)	(7,609)	(5,071)
Inc(Dec) in Cash	(62)	(178)	1	138	(6,416)	(1,545)	38	(21)
Add: Opening Balance	290	228	50	51	8,380	1,964	23	61
Closing Balance	228	50	51	189	1,964	419	61	40

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