

Industry
Bloomberg
BSE CODE

ZINC
HZ IN
500188

Current situation act as headwinds for the upcoming production capacity in FY21

RATING	NEUTRAL
CMP	169
Price Target	188
Potential Upside	11%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	259/122
Mkt Capital (Rs Cr)	71513
Free float (%)	5%
Avg. Vol 1M (,000)	516
No. of Shares (Cr)	423
Promoters Pledged %	NA

RESEARCH ANALYST

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4QFY20 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.
- HINDZINC reported revenue of Rs. 4321 Cr. (down 20% YoY and 7% sequentially) on account of lower LME prices and sharp decline in demand reduced volumes at large.
- Mined metal production was at 249 KT (up 2% YoY) despite production shutdown due to lockdown across the country. It remains higher on account of higher ore production and better overall grades across mines.
- In FY20 mined metal production was at 917KT reduced than the revised guidance of 950 KT due to shutdown in production which hampered 34KT of production volumes.
- Integrated Zinc production was 172 KT (down 2% YoY and 4% QoQ). Integrated lead production was at 49 KT (down 7% YoY while up 20% QoQ) due to Dariba lead production resumed normal operations. Integrated silver production was at 168 MT (down 12% YoY while 12% up QoQ).
- EBITDA for the quarter was Rs. 1961 Cr. with an EBITDA margin of 44.7% (down 6.1% YoY and 4.3% QoQ) on account of lower LME prices, higher power and fuel cost and other expenses. However, employee cost and mining royalty reduced in 4QFY20.
- PAT during the quarter stood at Rs. 1339 Cr. on the back of higher other income and reduced depreciation cost.
- The major capacity expansion projects of 1.2 MTPA was almost completed in FY20. All these will improve the grade of ore produced with the help of upgradation in technology which will expand margins by reducing the cost of production.

View and Valuation

Completion of the major expansion project which will benefit HINDZINC in terms of cost reduction as well as producing higher ore with better grades will help to sustain the company in this challenging environment. However, due to manufacturing activity closed in China which is majorly impacting 50% of demand got hampered due to lockdown. However, it is expected to rebound yet will take around 2 quarters to be back to normal pace. It's not the demand which was impacted but the LME prices was also seen at years low. Margins could also see the impact of these reduced LME prices. Meanwhile the additional capacity could be benefited only with the uptrend in the demand for the steel industry. This pandemic will impact the industry by dragging the demand for the short run which will take time to rebound. Thus, we maintain NEUTRAL stand with the target price at Rs. 188 at 6.8x EV/EBITDA for FY20.

Key Risks to our rating and target

- High volatility in LME Zinc prices and lower than expected volume growth.
- Uncertain demand outlook due to shutdown in production activity across the globe due to this current pandemic COVID-19.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20
Net Sales	14181	17273	22084	21118	18561
EBITDA	6652	9739	12272	10670	8847
EBIT	5907	7928	10789	8787	6568
PAT	8175	8316	9276	7956	6805
EPS (Rs)	19	20	22	19	16
EPS growth (%)	0	2	10	-15	-15
ROE (%)	22	27	26	23	19
ROCE (%)	16	26	30	26	19
BV	88.48	72.91	85.04	79.53	83.70
P/B (X)	2.07	3.96	3.54	3.48	2.23
P/E (x)	9.49	14.58	13.83	14.85	11.78

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Margins in line with estimates

4QFY20 Results

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %	QoQ%	FY19	FY20	YoY %
Net Sales	5491	4987	4511	4672	4391	-20.0%	-6.0%	21118	18561	-12.1%
Other Income	539	429	590	445	470	-12.8%	5.6%	1782	1934	8.5%
Total Income	6030	5416	5101	5117	4861	-19.4%	-5.0%	22900	20495	-10.5%
COGS	25	-6	-14	-171	-100	-500%	-	-64	-291	-
Staff Cost	213	182	192	201	114	-46.5%	-43.3%	905	689	-23.9%
Other Exp.	1378	1295	1264	1336	1364	-1.0%	2.1%	2051	5259	156.4%
Expenditure	2702	2510	2394	2383	2427	-10.2%	1.8%	10448	9714	-7.0%
EBITDA	2789	2477	2117	2289	1964	-29.6%	-14.2%	10670	8847	-17.1%
EBITDAmargin	50.8%	49.7%	46.9%	49.0%	44.7%	-11.9%	-8.7%	50.5%	47.7%	-5.7%
Depreciation	553	534	595	597	553	0.0%	-7.4%	1883	2279	21.0%
EBIT	2236	1943	1522	1692	1411	-36.9%	-16.6%	8787	6568	-25.3%
Interest	51	29	25	42	16	0.0%	-	113	112	-0.9%
PBT	2724	2343	2087	2095	1865	-31.5%	-11.0%	10456	8390	-19.8%
Excpt. Item	0	0	0	0	0	0.0%	-	0	0	-
Tax	712	578	6	475	526	-26.1%	11%	2500	1585	-36.6%
PAT	2012	1765	2081	1620	1339	-33.4%	-17.3%	7956	6805	-14.5%

Operating Matrix

VOLUME/PRICES	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %
Refined Zinc ('000 tons)	172	162	188	175	172	166	178	172	-1.7%
Zinc LME (USD/ton)	3112	2569	2576	2783	2719	2349	2393	2035	-26.9%
Refined Lead('000 tons)	42	49	54	53	48	44	41	49	-7.5%
Lead LME (USD/ton)	2388	2104	1944	2088	1872	2034	2033	1818	-12.9%
Silver (tons)	138	172	178	191	159	134	149	168	-12.0%
Silver LBMA (USD/oz.)	16	15	15	16	15	15	15	15	-4.3%

Mined metal production in 4QFY20

Integrated metal production was 221KT for 4QFY20 down 3% YoY and up 1% QoQ due to lockdown in March. Integrated Zinc production was at 172 KT down 2% YoY and 4% QoQ. Integrated lead production was 49 KT down 7% YoY while up 20% QoQ as dariba lead smelter resumed normal operations during the quarter. Integrated silver production was 168 MT down 12% YoY on account of lower lead production partly offset by better SK silver grades and improving silver recovery rate; while up 12% sequentially on account of higher lead production, better grades and higher silver recovery rate.

Lower LME prices contracted margins despite reduced COP

Zinc cost of production during the quarter was \$ 997 per MT while lower LME prices reduced margins despite the production improved the operating leverage. The sequential decline in COP is due to higher volumes, better grades, lower employee cost, improved input commodity costs, partly offset by higher Raw material and lower acid credits. The YoY increase in COP in 4Q included lower volume, higher RM expense, hogher cement prices and lower acid credits, partly off-set by lower coal costs and lower employee expense.

Concall Highlights

Lockdown impact on Mines

- At the time of lockdown, all the mines and smelters were working till mid-April except Rampura Agucha Mine which started production from 20TH April. Mines were working with less than 25% utilization level in the month of April and gradually ramping up to 40% by the end of the month whereas smelters were at 80% utilization level.
- Currently, all the mines along with smelters are currently working at 80-90% utilization despite of constrain on workforce.
- Despite the lockdown and lower production in the month if April and May; management is confident of delivering good performance during Fy21.
- Demand was impacted by late January due to lockdown and consequent slowdown in manufacturing activities from china which affect around 50% of global demand of base metals.

Financial Highlights

- During FY20, management focused on upgrading the resources to reserves through increased drilling activity and significantly improved out reserves from 96.2 MT to 114.7 MT.
- For FY20 ore production was recorded at 14.5 million tons while mined metal production was at 917 KT down 2% YoY.
- Zaver mined ore production volume grew by 14% YoY at 3.3 MT for FY20.
- Rampura Aghucha operated at 4.5 MTPA run rate and produced 3.5 MT of ore for FY20 which increased by 18% QoQ.
- Sindesar Khurd mine performed in 2HFY20 both in terms of grade as well as volume.
- RD and Kayad mines performed within their limits.
- Management is successful in replicating Dariba ancillary ecosystem at Chanderiya, where planned for copper sulphate production from smelter residuals was commissioned in April-20.
- Zinc prices declined sharply in 4QFY20 in this pandemic situation where it went below \$ 1800/t, which were picked up in May due to fundamental support currently at \$1950/t.
- Mined production globally could see a downfall of around 5% YoY on account of the current situation. Chinese Smelters resumed production at the end of March-20, although those smelters faced the manpower issues.
- It's expected that the smelters could also see production cut based on the same situation for FY21.
- Auto plants in Europe re-starting production, US auto plant will also start by first week of June-20, manufacturing plants in China started picking up the demand for Steel. It's expected that zinc metal supply will match up demand over next 2 quarters which will support zinc prices in FY21.
- Mined metal production grew 6% QoQ on the back of higher ore production and better ore grades.

Expansion Details

- All the major projects to expansion of capacity to 1.2 million ton were completed during 1QFY21.
- At Rampura Agucha shaft is now fully commissioned with start of ore hauling which will allow management to deliver around 5 MT of ore from this mine and the shaft will ramp up in the current year.
- The two backfill plant are under load trails at Zavar, back filling of voids is expected to commence in May-20. This initiative will improve mine stability and provide an opportunity for pillar mining to remove left-out high grade ore.
- The existing production shaft is being upgraded from 0.7 to 1.3 MTPA over 2 phases to debottlenecking the mine; upgrade to 0.9 MTPA is expected to complete in FY21 and further to 1.3 MTPA in FY22.
- Miner metal extraction from smelter residuals, which will recycle the waste generated.
- Cadmium recovery plant is expected to be operational in 3QFY21 followed by raw zinc oxide treatment plant by the end of FY21.
- Fumer plant is expected to be commissioned in 1QFY20 which will be a game changer in terms of high silver recovery.
- PFK treatment at plant in Chanderiya will be completed in 1QFY21 to recover Zinc, Copper and Cadmium Sponge. It will help in recovering 0.35% in Zinc, lead and silver while management is constantly looking for newer technology for other mineral extraction.

Exhibit: Net Sales and Growth Trend

Lower volumes and mined metal production along with reduced LME prices fall revenue during the quarter.

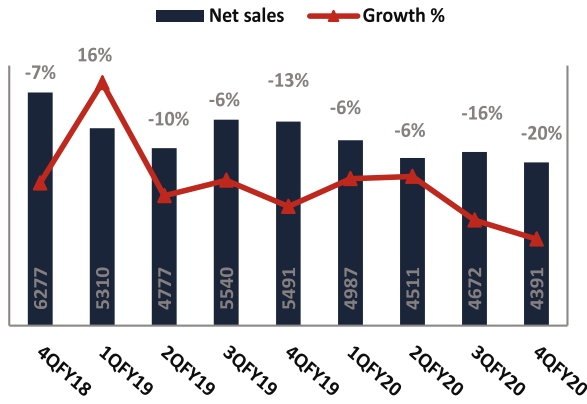


Exhibit: EBITDA and EBITDA Margin Trend

Reduced LME prices dropped margins despite lower employee cost in 4QFY20.

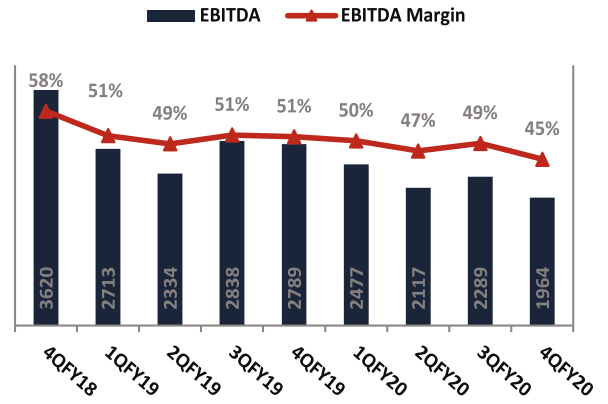


Exhibit: PAT and PAT Margin Trend

Fall in margins reduced bottomline despite higher other income and reduced depreciation during the quarter.

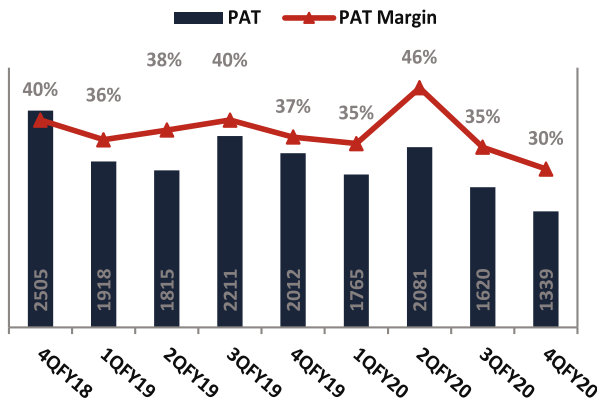


Exhibit: Total Mined Metal Production

Total ore production in the quarter was up during the quarter..

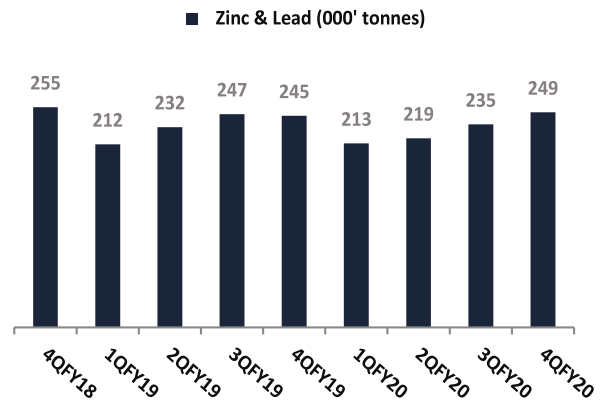


Exhibit: Zinc Volume and Realization Trend

zinc volume declined YoY and QoQ based on lower demand..

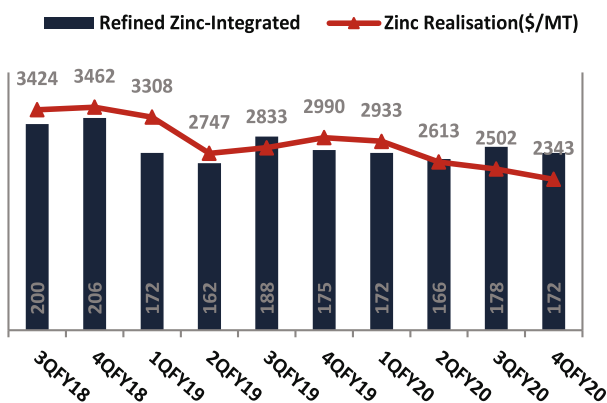


Exhibit: Lead Volume and Realization Trend

lead volume remained flat YoY and grew QoQ due to dariba smelter production while realization dropped with lower LME prices.

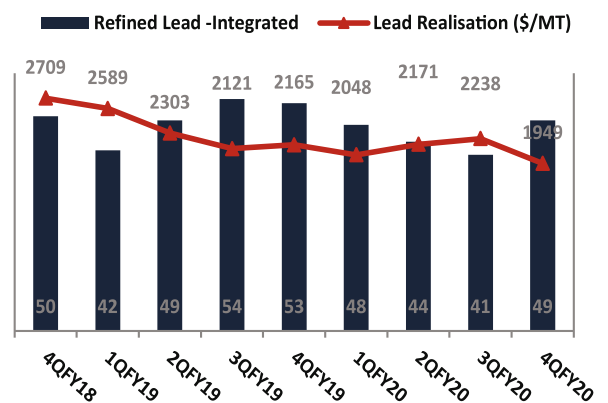


Exhibit: Silver Volume and Realiation Trend

silver volume has been increasing during the quarter.....

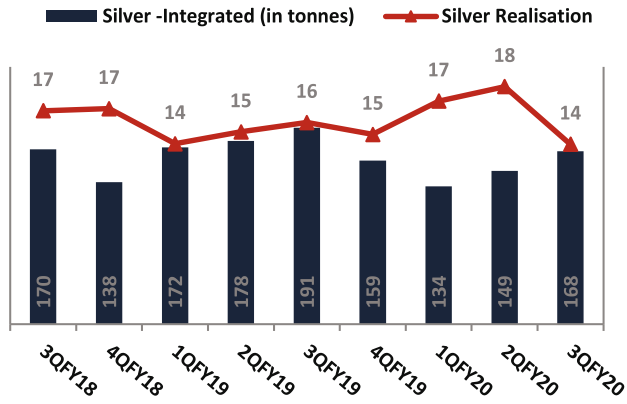


Exhibit: Zinc CoP Trend

Better grades, lower mine development impacted CoP....

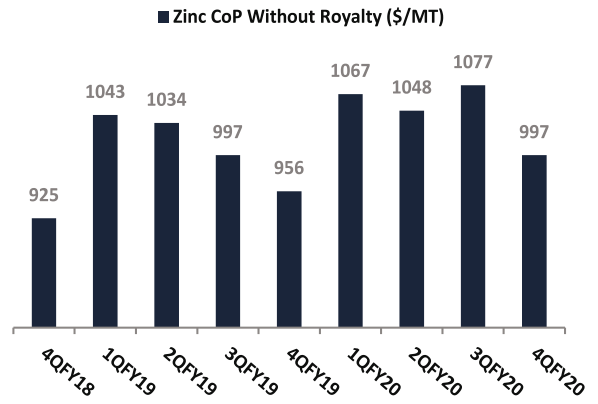


Exhibit: Zinc, Lead and Silver Price Trend

prices continue to remain muted at an overall level..

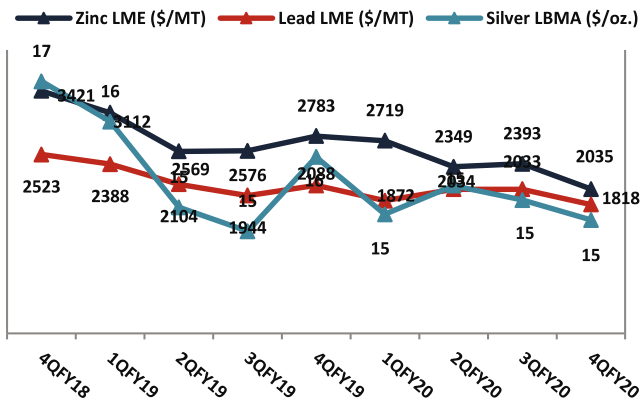


Exhibit: ROE Trend

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

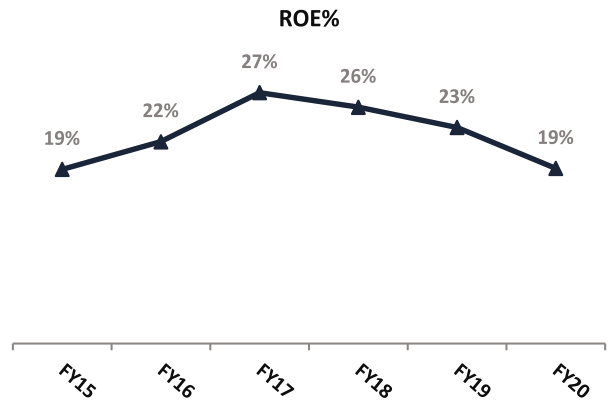
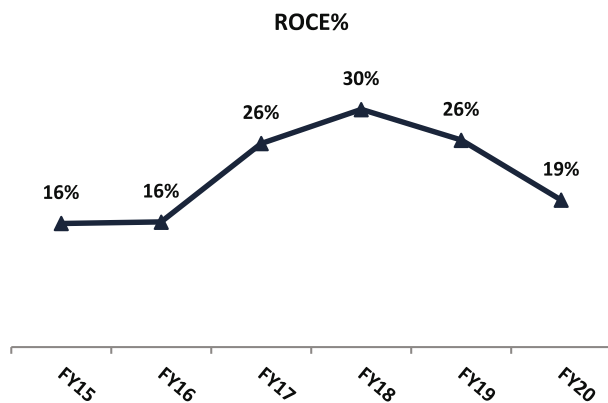


Exhibit: ROCE Trend

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



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	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	34,522
Networth	32,276	37,418	43,353	37,385	30,805	35,932	33,605	35,367
Debt	0	-	-	-	7,908	-	2,538	-
Other Non Cur Liab	28	56	132	563	556	792	945	976
Total Capital Employed	32,276	37,418	43,353	37,385	38,713	35,932	36,143	35,367
Net Fixed Assets (incl CWIP)	9,566	10,688	11,451	12,813	13,064	14,522	17,032	17,325
Non Cur Investments	3	3	-	-	-	-	-	-
Other Non Cur Asst	239	-	-	952	1,315	1,137	638	500
Non Curr Assets	11,706	13,630	15,788	16,282	17,146	18,789	20,886	20,426
Inventory	1,111	1,198	1,212	1,058	1,936	1,379	1,544	1,475
Debtors	403	400	659	107	136	184	196	305
Cash & Bank	6,942	3,031	3,532	53	8,380	1,964	23	111
Other Curr Assets	393	630	184	467	408	382	314	186
Curr Assets	23,760	28,046	33,204	36,913	34,649	24,143	21,572	20,783
Creditors	484	510	631	931	1,205	947	1,174	1,271
Provisons (both)	825	1,016	1,312	49	128	220	219	235
Other Curr Liab	572	1,018	1,046	3,504	2,327	1,713	2,397	1,856
Curr Liabilities	1,881	2,545	2,988	15,127	12,322	6,005	5,206	4,661
Net Curr Assets	21,878	25,502	30,216	21,786	22,327	18,138	16,366	16,123
Total Assets	35,465	41,677	48,992	53,195	51,795	42,932	42,458	41,210

Income Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue from Operation	12,700	13,636	14,788	14,181	17,273	22,084	21,118	18,561
Change (%)	11%	7%	8%	-4%	22%	28%	-4%	-12%
Other Income	2,032	1,899	2,821	2,763	2,474	1,751	1,782	1,934
EBITDA	6,178	6,900	7,420	6,652	9,739	12,272	10,670	8,847
Change (%)	2%	12%	8%	-10%	46%	26%	-13%	-17%
Margin (%)	49%	51%	50%	47%	56%	56%	51%	48%
Depr & Amor.	647	785	644	745	1,811	1,483	1,883	2,279
EBIT	5,531	6,115	6,775	5,907	7,928	10,789	8,787	6,568
Int. & other fin. Cost	29	45	24	17	202	283	113	112
EBT	7,534	7,970	9,573	8,653	10,200	12,257	10,456	8,390
Exp Item	18	-	3	30	-	240	-	-
Tax	921	1,065	1,392	448	1,884	3,221	2,500	1,585
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	6,596	6,905	8,178	8,175	8,316	9,276	7,956	6,805
Adjusted PAT	6,613	6,905	8,181	8,205	8,316	9,036	7,956	6,805
Change (%)	19%	5%	18%	0%	2%	12%	-14%	-14%
Margin(%)	52%	51%	55%	58%	48%	42%	38%	37%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	20.44%	18.45%	18.86%	21.86%	27.17%	25.59%	23.40%	18.96%
ROCE	17.14%	16.34%	15.63%	15.80%	25.74%	30.03%	26.15%	18.57%
Asset Turnover	0.36	0.33	0.30	0.27	0.33	0.51	0.50	0.45
Debtor Days	11	12	11	16	3	3	3	3
Inv Days	26	32	32	30	27	41	23	27
Payable Days	13	14	14	16	24	25	16	20
Int Coverage	190.06	136.08	288.19	348.91	39.25	38.12	77.76	58.64
P/E	7.76	7.85	8.36	9.49	14.58	13.83	14.85	11.78
Price / Book Value	1.59	1.45	1.58	2.07	3.96	3.54	3.48	2.23
EV/EBITDA	4.81	4.16	5.07	6.35	9.23	8.55	9.12	6.80
FCF per Share	7.09	8.81	9.26	11.60	13.18	16.81	12.74	16.31
Div Yield	2.1%	2.4%	2.3%	3.4%	10.2%	2.7%	7.2%	5.3%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
PBT	7,820	7,970	9,570	8,623	10,200	12,497	10,456	8,290
(inc)/Dec in Working Capital	(183)	125	95	1,632	198	494	671	369
Non Cash Op Exp	(1,280)	(979)	(2,101)	(1,982)	(483)	142	214	2,391
Int Paid (+)	29	45	24	10	191	283	113	112
Tax Paid	(1,606)	(1,645)	(2,033)	(1,822)	(2,338)	(3,028)	(2,560)	(1,585)
others	-	-	-	-	-	-	-	-
CF from Op. Activities	4,752	5,471	5,531	6,451	7,577	9,837	8,781	9,465
(inc)/Dec in FA & CWIP	(1,756)	(1,748)	(1,617)	(1,550)	(2,008)	(2,733)	(3,400)	(2,572)
Free Cashflow	2,996	3,723	3,913	4,901	5,569	7,104	5,381	6,893
(Pur)/Sale of Inv	(629)	(6,825)	(2,285)	(5,692)	13,665	4,620	1,996	788
others	-	-	-	-	-	-	-	-
CF from Inv. Activities	(3,234)	(3,955)	(3,807)	(3,236)	3,816	2,396	(1,092)	(1,784)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	-	-	-	-	7,900	(7,900)	2,536	(2,538)
Int. Paid	(29)	(45)	(24)	(10)	(183)	(280)	(208)	(112)
Div Paid (inc tax)	(1,228)	(1,532)	(1,879)	(3,204)	(18,972)	(10,469)	(11,958)	(4,943)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(1,257)	(1,577)	(1,902)	(3,214)	(11,255)	(18,649)	(9,630)	(7,593)
Inc(Dec) in Cash	261	(62)	(178)	1	138	(6,416)	(1,941)	88
Add: Opening Balance	29	290	228	50	51	8,380	1,964	23
Closing Balance	290	228	50	51	189	1,964	23	111

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