

Industry
Bloomberg
BSE CODE

ZINC
HZ IN
500188

Subdued production volume guidance for FY21 led by muted demand

RATING	NEUTRAL
CMP	200
Price Target	211
Potential Upside	6%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	226/122
Mkt Capital (Rs Cr)	83576
Free float (%)	5%
Avg. Vol 1M (,000)	645
No. of Shares (Cr)	423
Promoters Pledged %	0%

RESEARCH ANALYST

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1QFY21 Result update

- Revenue reported during the quarter is Rs. 3989 Cr. (vs. our estimate of Rs.4048 Cr.) down 20% YoY and 9.2% sequentially on account of COVID impact.
- Reduced production as well as dispatched mined metal production during the quarter on account of lockdown for 18 days in the month of April.
- Mined metal production in 1QFY21 is 202MT reduced by 5% YoY due to fewer days of production.
- EBITDA during the quarter is Rs. 1576 Cr. with an EBITDA margin of 39.5% (down 10.2% YoY, 5.2% QoQ) due to higher employee cost.
- PAT in 1QFY21 stood at Rs. 1359 Cr. with the PAT margin of 34.1% on the back of higher other income and lower tax rate.
- Commissioning of plant at Zawar are expected to be completed in 2Q. Simar plant is ready for commissioning and is waiting for OEM support held up due to visa and travel restrictions.
- Similar to Mine, smelter also saw a gradual ramp up in April and reached upto 90% utilisation in the month of May and June with production run rate being 11% higher in those 2 month as compared to similar those 2 months of last year.
- Management is planning to further enhance silver production to 1000T in the coming years through higher production from existing and new silver deposit as well as by enhancing process recovery.

View and Valuation

HINDZINC muted mined metal production guidance for FY21 based on subdued demand. LME prices rebound from May onwards from years low in the month of March. Management is confident for the silver production volumes along with the increase in the prices of silver. Higher employee cost due to lower mined metal volumes reduced margins. However, higher other income and reduced tax rates offset PAT margin. We maintain our stance to remain NEUTRAL at Rs. 211 13.5x EV/EBITDA FY21E.

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	FY17	FY18	FY19	FY20	FY21E
Net Sales	17273	22084	21118	18561	15484
EBITDA	9739	12272	10670	8847	4929
EBIT	7928	10789	8787	6568	2537
PAT	8316	9276	7956	6805	3589
EPS (Rs)	20	22	19	16	8
EPS growth (%)	2	10	-15	-15	-47
ROE (%)	27	26	23	17	9
ROCE (%)	26	30	26	16	6
BV	72.91	85.04	79.53	95.40	92.39
P/B (X)	3.96	3.54	3.48	1.96	2.16
P/E (x)	14.58	13.83	14.85	11.78	23.56

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Revenue in line with estimates

1QFY21 Results

Fig in Rs Cr

FINANCIALS	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	4987	4511	4672	4391	3989	-20.0%	-9.2%	21118	18561	-12.1%
Other Income	429	590	445	470	684	59.4%	45.5%	1782	1934	8.5%
Total Income	5416	5101	5117	4861	4673	-13.7%	-3.9%	22900	20495	-10.5%
COGS	-6	-14	-171	-100	167	-2883%	-	-64	-291	-
Staff Cost	182	192	201	114	235	29.1%	106.1%	905	689	-23.9%
Other Exp.	1295	1264	1336	1364	1160	-10.4%	-15.0%	2051	5259	156.4%
Expenditure	2510	2394	2383	2427	2413	-3.9%	-0.6%	10448	9714	-7.0%
EBITDA	2477	2117	2289	1964	1576	-36.4%	-19.8%	10670	8847	-17.1%
EBITDAmargin	49.7%	46.9%	49.0%	44.7%	39.5%	-20.4%	-11.7%	50.5%	47.7%	-5.7%
Depreciation	534	595	597	553	544	1.9%	-1.6%	1883	2279	21.0%
EBIT	1943	1522	1692	1411	1032	-46.9%	-26.9%	8787	6568	-25.3%
Interest	29	25	42	16	52	0.0%	-	113	112	-0.9%
PBT	2343	2087	2095	1865	1664	-29.0%	-10.8%	10456	8390	-19.8%
Excpt. Item	0	0	0	0	0	0.0%	-	0	0	-
Tax	578	6	475	526	305	-47.2%	-42%	2500	1585	-36.6%
PAT	1765	2081	1620	1339	1359	-23.0%	1.5%	7956	6805	-14.5%

Operating Matrix

VOLUME/PRICES	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY%
Refined Zinc ('000 tons)	162	188	175	172	166	178	172	157	-8.7%
Zinc LME (USD/ton)	2569	2576	2783	2719	2349	2393	2035	1986	-27.0%
Refined Lead('000 tons)	49	54	53	48	44	41	49	44	-8.3%
Lead LME (USD/ton)	2104	1944	2088	1872	2034	2033	1818	1671	-10.7%
Silver (tons)	172	178	191	159	134	149	168	117	-26.4%
Silver LBMA (USD/oz.)	15	15	16	15	15	15	15	16	7.5%

Mined metal production in 1QFY21

Integrated metal production was 202KT for 1QFY21 down 9% YoY and 5% QoQ due to lockdown in April. Integrated Zinc production was at 157 KT down 19% YoY and 14% QoQ. Integrated lead production was 44 KT down 7% YoY while up 20% QoQ as dariba lead smelter resumed normal operations during the quarter. Integrated silver production was 117 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 \$ 957 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

- Hindzinc is the 6TH largest producer of silver in the world and contribute to 10% of the domestic demand.
- Management has increased silver production by 4.1 times over the last decade to over 600 tonnes which almost contributes 13% of total revenue.
- Management is planning to further enhance silver production to 1000T in the coming years through higher production from existing and new silver deposit as well as by enhancing process recovery.
- 18 days of equivalent production was lost during the quarter on account of COVID19 and other workforce related restrictions.
- Mined metal production achieved in the month of May and June was 16% higher run rate along with COVID19 guidelines.
- Management is confident to deliver strong performance during the year.
- From may onwards Zinc prices started recovering from years low in the month of March, mirroring rebound in industrial activity post easing up sanction and restrictions globally.
- Majority mines whose production is stopped due to lockdown where ramping up in the month of May while complying with new protocol.
- Impact of lockdown resulted to 5% decline in Mined supply in 2020 except pre March growth of 4%.
- Demand side, Chinese consumption which accounts for 40% of global demand has trended upwards by increasing Zinc spending's on infrastructure and Real Estate.
- Demand in rest of the world remained disrupted with secondary outbreaks.
- Demand in FY21 is expected to be lower than previous year as per management.
- As mined supply is expected to be lower than last year and dependent on ramp up, management expect smelters to cut production due to subdued demand.
- In domestic market, our key customers including Steel plants are gradually increasing production and demand is expected to improve towards the end of the current quarter.
- Government's economic package to reboot the economy downstream demand of Zinc as infrastructure activities are participated to pickup pace.
- Replacement demand to gain traction in 2Q though it may take a while for automobile OEM demand to return to normal level as the segment globally struggling.
- Silver demand is steady in domestic market and prices are steadily rising.
- Gold to Silver prices ratio has increased further and the need for safety Indian will keep the Silver prices upside.
- Mined metal production reduced by 5% YoY due to fewer days of production during the quarter.
- Our grades remain unchanged at 7.3% from a year ago.
- Mined metal production lower by 19% as per mine plan and fewer days of production in the month of April.
- Similar to Mine, smelter also saw a gradual ramp up in April and reached upto 90% utilisation in the month of May and June with production run rate being 11% higher in those 2 month as compared to similar those 2 months of last year.
- Commissioning of plant at Zawar are expected to be completed in 2Q. Simar plant is ready for commissioning and is waiting for OEM support held up due to visa and travel restrictions.

Exhibit: Net Sales and Growth Trend

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

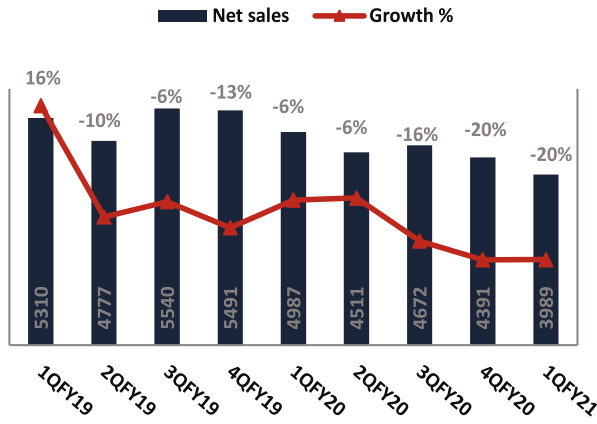


Exhibit: EBITDA and EBITDA Margin Trend

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

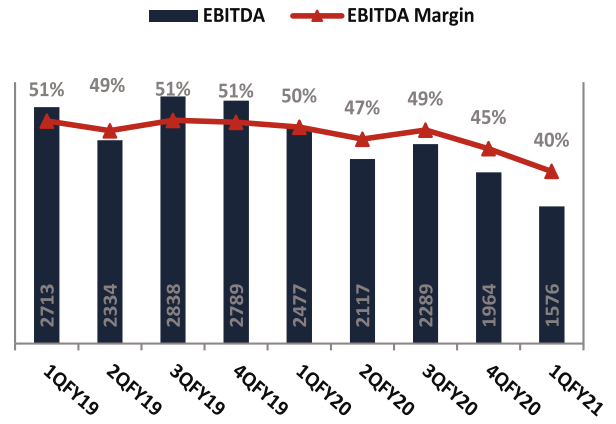


Exhibit: PAT and PAT Margin Trend

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

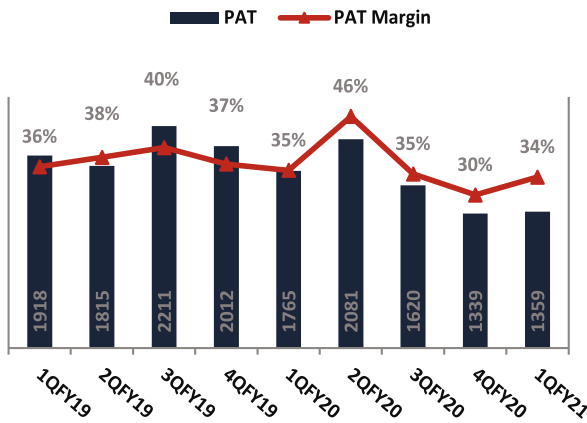


Exhibit: Total Mined Metal Production

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

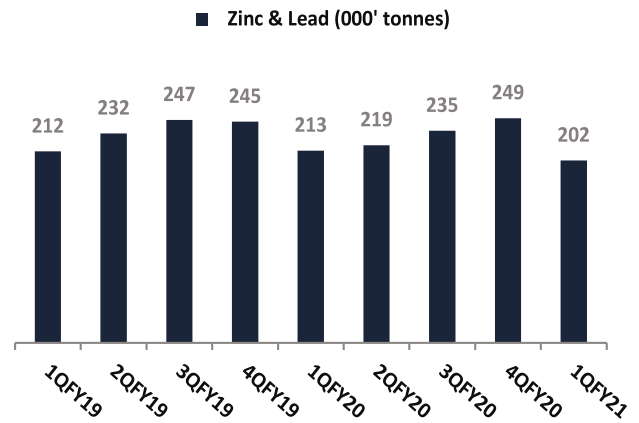


Exhibit: Zinc Volume and Realization Trend

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

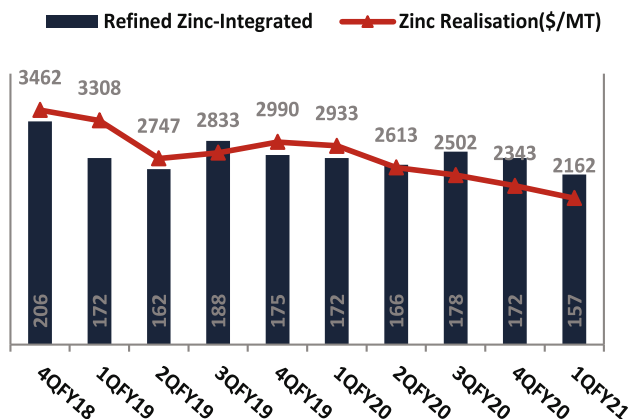


Exhibit: Lead Volume and Realization Trend

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

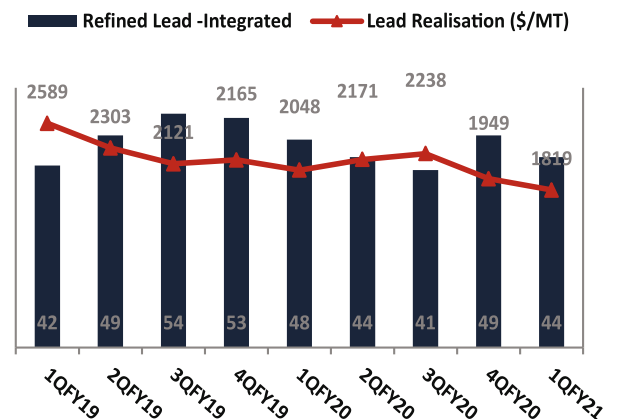


Exhibit: Silver Volume and Realiation Trend

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

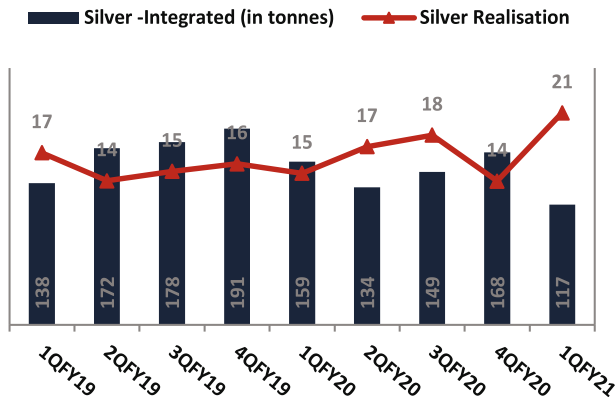


Exhibit: Zinc CoP Trend

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

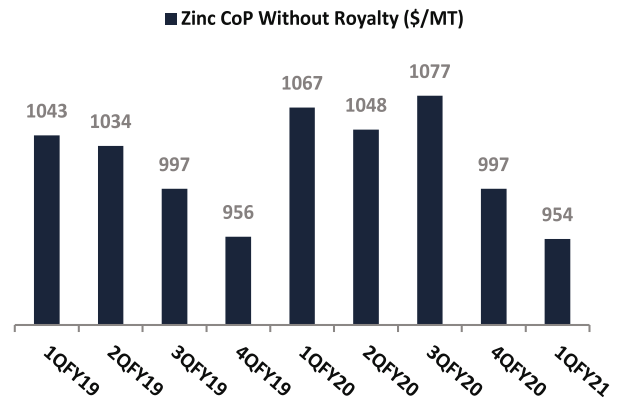


Exhibit: Zinc, Lead and Silver Price Trend

prices continue to remain muted at an overall level..

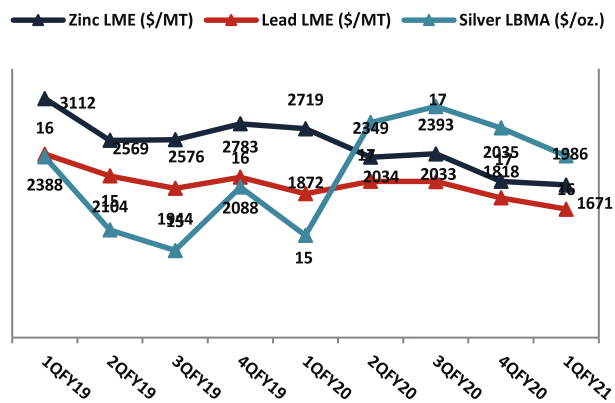


Exhibit: ROE Trend

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

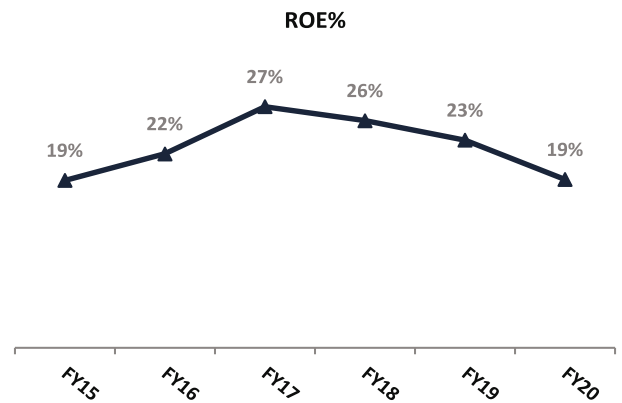
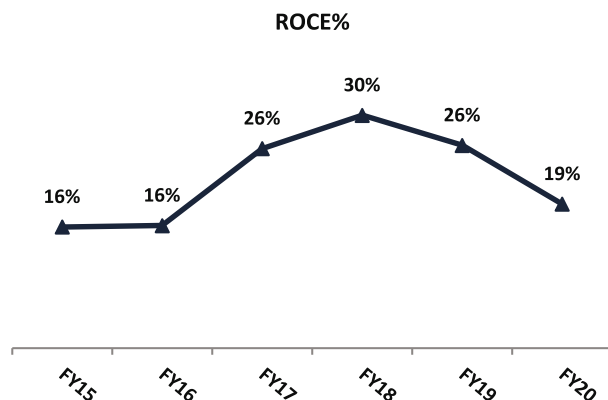


Exhibit: ROCE Trend

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



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Share Capital	845	845	845	845	845	845	845	845
Reserves	36,573	42,508	36,540	29,960	35,087	32,760	39,465	38,193
Networth	37,418	43,353	37,385	30,805	35,932	33,605	40,310	39,038
Debt	-	-	-	7,908	-	2,538	611	-
Other Non Cur Liab	56	132	563	556	792	945	1,068	1,068
Total Capital Employed	37,418	43,353	37,385	38,713	35,932	36,143	40,921	39,038
Net Fixed Assets (incl CWIP)	10,688	11,451	12,813	13,064	14,522	17,032	18,958	17,757
Non Cur Investments	3	-	-	-	-	-	-	-
Other Non Cur Asst	-	-	952	1,315	1,137	638	480	500
Non Curr Assets	13,630	15,788	16,282	17,146	18,789	20,886	22,162	21,160
Inventory	1,198	1,212	1,058	1,936	1,379	1,544	1,835	1,230
Debtors	400	659	107	136	184	196	401	255
Cash & Bank	3,031	3,532	53	8,380	1,964	23	1,918	308
Other Curr Assets	630	184	467	408	382	314	322	155
Curr Assets	28,046	33,204	36,913	34,649	24,143	21,572	24,813	22,956
Creditors	510	631	931	1,205	947	1,174	1,488	1,061
Provisions (both)	1,016	1,312	49	128	220	219	232	232
Other Curr Liab	1,018	1,046	3,504	2,327	1,713	2,397	1,694	1,548
Curr Liabilities	2,545	2,988	15,127	12,322	6,005	5,206	4,802	3,826
Net Curr Assets	25,502	30,216	21,786	22,327	18,138	16,366	20,011	19,130
Total Assets	41,677	48,992	53,195	51,795	42,932	42,458	46,975	44,116

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Revenue from Operation	13,636	14,788	14,181	17,273	22,084	21,118	18,561	15,484
Change (%)	7%	8%	-4%	22%	28%	-4%	-12%	-17%
Other Income	1,899	2,821	2,763	2,474	1,751	1,782	1,934	2,024
EBITDA	6,900	7,420	6,652	9,739	12,272	10,670	8,847	4,929
Change (%)	12%	8%	-10%	46%	26%	-13%	-17%	-44%
Margin (%)	51%	50%	47%	56%	56%	51%	48%	32%
Depr & Amor.	785	644	745	1,811	1,483	1,883	2,279	2,392
EBIT	6,115	6,775	5,907	7,928	10,789	8,787	6,568	2,537
Int. & other fin. Cost	45	24	17	202	283	113	112	52
EBT	7,970	9,573	8,653	10,200	12,257	10,456	8,390	4,509
Exp Item	-	3	30	-	240	-	-	-
Tax	1,065	1,392	448	1,884	3,221	2,500	1,585	920
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	6,905	8,178	8,175	8,316	9,276	7,956	6,805	3,589
Adjusted PAT	6,905	8,181	8,205	8,316	9,036	7,956	6,805	3,589
Change (%)	5%	18%	0%	2%	12%	-14%	-14%	-47%
Margin(%)	51%	55%	58%	48%	42%	38%	37%	23%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
ROE	18.45%	18.86%	21.86%	27.17%	25.59%	23.40%	16.63%	9.19%
ROCE	16.34%	15.63%	15.80%	25.74%	30.03%	26.15%	16.29%	6.50%
Asset Turnover	0.33	0.30	0.27	0.33	0.51	0.50	0.40	0.35
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	58.64	0.00
P/E	7.85	8.36	9.49	14.58	13.83	14.85	11.78	23.56
Price / Book Value	1.45	1.58	2.07	3.96	3.54	3.48	1.96	2.16
EV/EBITDA	4.16	5.07	6.35	9.23	8.55	9.12	6.42	12.82
FCF per Share	8.81	9.26	11.60	13.18	16.81	12.74	7.06	10.85
Div Yield	2.4%	2.3%	3.4%	10.2%	2.7%	7.2%	5.3%	5.0%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
PBT	7,970	9,570	8,623	10,200	12,497	10,456	8,390	4,507
(inc)/Dec in Working Capital	125	95	1,632	198	494	671	(1,117)	(257)
Non Cash Op Exp	(979)	(2,101)	(1,982)	(483)	142	214	483	2,444
Int Paid (+)	45	24	10	191	283	113	112	52
Tax Paid	(1,645)	(2,033)	(1,822)	(2,338)	(3,028)	(2,560)	(1,135)	(920)
others	-	-	-	-	-	-	-	-
CF from Op. Activities	5,471	5,531	6,451	7,577	9,837	8,781	6,621	5,774
(inc)/Dec in FA & CWIP	(1,748)	(1,617)	(1,550)	(2,008)	(2,733)	(3,400)	(3,637)	(1,191)
Free Cashflow	3,723	3,913	4,901	5,569	7,104	5,381	2,984	4,583
(Pur)/Sale of Inv	(6,825)	(2,285)	(5,692)	13,665	4,620	1,996	451	(671)
others	-	-	-	-	-	-	-	-
CF from Inv. Activities	(3,955)	(3,807)	(3,236)	3,816	2,396	(1,092)	(2,648)	(1,862)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	-	-	-	7,900	(7,900)	2,536	(1,924)	(611)
Int. Paid	(45)	(24)	(10)	(183)	(280)	(208)	(170)	(52)
Div Paid (inc tax)	(1,532)	(1,879)	(3,204)	(18,972)	(10,469)	(11,958)	-	(4,859)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(1,577)	(1,902)	(3,214)	(11,255)	(18,649)	(9,630)	(2,098)	(5,522)
Inc(Dec) in Cash	(62)	(178)	1	138	(6,416)	(1,941)	1,875	(1,610)
Add: Opening Balance	290	228	50	51	8,380	1,964	23	1,918
Closing Balance	228	50	51	189	1,964	23	1,898	308

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Analyst's ownership of the stocks mentioned in the Report	NIL
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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.-SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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