



# Quick Insight

## Hindustan Zinc Ltd.



## HINDUSTAN ZINC

Zinc &amp; Silver of India

Industry	Metals & Mining
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CMP	₹209.25
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M Cap (₹ bn)	₹884.15
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Buy Range	₹195-205
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Target	₹230-240
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Recommendation	<b>BUY</b>
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## Highlights

- Both mined metal and finished metal production is expected to be around 925-950kt along with expected CoP to remain below USD 1,000 in FY21
- The company is in planning phase of further expansion to 1.35mn tons p.a. capacity.
- The company has replenished its reserves and resources (consumed during FY20), with the current rate of production sufficing for the next 25 years.
- Chinese demand for zinc remains strong driven by infrastructure and white goods

**Background**

Hindustan Zinc Limited (HZL) is an integrated mining and resources producer of zinc, lead, silver and cadmium. It is a subsidiary of Vedanta Resources PLC. HZL is the world's second largest zinc produce. Hindustan Zinc Limited was incorporated from the erstwhile Metal Corporation of India on 10 January 1966 as a Public Sector Undertaking. Hindustan Zinc Limited was incorporated from the erstwhile Metal Corporation of India on 10 January 1966 as a Public Sector Undertaking. In 2001, as part of the Government's disinvestment program of loss-making PSUs, the company was put up for sale. In Apr'02, Sterlite Opportunities and Ventures Limited (SOVL) made an open offer for acquisition of shares of the company; consequent to the disinvestment of Government of India's (GOI) stake of 26% including management control to SOVL, the company acquired additional 20% of shares from public. Sterlite Industries merged with Sesa Goa Ltd to form Sesa Sterlite Limited in Aug'13. Sesa Sterlite was renamed to Vedanta Limited in Apr'15.

**Investment Argument**

- **Outlook** – The management has guided for 925-950k tonnes mined metal and 650 tonnes of silver production in FY21. Management remains apprehensive about the second wave of Covid-19 and hence, is guiding for a lower production target compared to its Q4FY20 run rate. This is despite most of its 1.2mt related capex expected to complete by Q2FY21. With the zinc, lead and silver prices rallying by 23%, 11% and 94% from their Mar'20 lows, we believe that the trough lies behind. Given its presence in the lower end of the global cost curve facilitated by high grade captive mines sufficient to meet requirements for decades, 100% captive power plants, sizeable scale of ~1mn tons+, diversified revenue stream with increasing contribution from silver sales and strong balance sheet we have a preferential **BUY** with target range of ₹230-240
- **Healthy reserve base provides earnings visibility over long term** – HZL has a huge reserve base, which provides strong earnings visibility. During the year, total ore reserves increased from 92.6mn tonnes (mt) at the end of FY19 to 114.7 mt at the end of FY20, while mineral resources totalled 288.3 mt. Total Reserves & Resources (R&R) was unchanged at 403 mt from a year ago as ore consumed during the year was replenished. Total contained metal in ore reserves was 7.95 mt of zinc, 2.07 mt of lead and 256.2mn ounces of silver. The mineral resources contain 15.87 mt of zinc, 5.93 mt of lead and 641.8mn ounces of silver. At current mining rates, the R&R underpins metal production for more than 25 years.
- **Q1FY21 performance** – In Q1FY21, zinc sales volumes came in at ~163,000 tonnes (YoY/QoQ: -9%/-9%), lead sales volume were at ~45,000 tonnes (YoY/QoQ: -7%/-10%) while silver sales volume came in at ~146,000 kg (YoY/QoQ: -26%/-30%). Topline came in at ₹39,890mn (down 20% YoY, 9.2% QoQ). EBITDA came in at ₹15,760mn (down 36.4% YoY, 19.8% QoQ). EBITDA margin was at 39.5%. Contribution to PM CARE fund and other start-up costs led to higher reported CoP during Q1FY21. Reported CoP (before royalty) was at US\$1019 (₹76,920) per tonne, which included start-up costs and ₹1,010mn (US\$53 per tonne) for contribution towards PM-CARE fund. Other income was at ₹6,840mn (+59.4% YoY, +45.5% QoQ). Reported highest other income in the past 14 quarters driven by MTM gains on treasury investments. The ETR on the treasury income is lower than the ETR on the operational income due to the inclusion of tax free bonds and investments in bond funds, which resulted in a lower effective corporate Income tax rate of 18% during the quarter thus ensuing PAT came in at ₹13,590mn. The company lost 18 days in Apr'20 due to the lockdown. The run rate for May'20 and Jun'20 was 16% higher vs. Q1FY20. Mined metal production for the quarter was down by 5% YoY due to fewer days of production in Apr'20 and restrictions due to COVID-19.

<b>Nifty</b>	11,132
<b>Sensex</b>	37,668
<b>Key Stock Data</b>	
CMP	₹209.25
Market Cap (₹)	₹884.15bn
52W High/Low	₹259/122
Shares o/s (mn)	4,225
Daily Vol. (3M NSE Avg.)	2,800,000
<b>Shareholding pattern (%) Jun'20</b>	
Promoter	64.9
DII	3.6
Govt. of India	29.6
Public & Others	1.9

Particulars	₹ mn		
	FY18	FY19	FY20
Revenues	220,840	211,180	185,610
EBITDA	122,720	106,700	88,470
EBITDA Margin (%)	55.6	50.5	47.7
Net Profit	92,760	79,560	68,050
EPS (₹)	21.2	18.8	15.2
DPS (₹)	8.0	20.0	16.5
RoE (%)	27.1	22.9	19.7
RoCE (%)	25.8	21.2	17.4
P/E (x)	9.9	11.1	13.8
EV/EBITDA (x)	5.1	6.4	8.2
P/BV (x)	2.4	2.6	2.7

Source: Company Data, Way2Wealth Inst Equity

- **Resumption of expansion of projects** – COVID disruption led to delays in commissioning of Hindustan Zinc's expansion projects. The company now expects the commissioning of the backfill plant at Zawar in Q2FY21. While the fumer plant is ready for commissioning, the company awaits OEM support, delayed due to visa and travel restrictions. Post expansion to 1.2mt during the year, company is now in the planning phase of further expansion to 1.35mt of capacity.
- **CoP under control. Demand pick up from China** – Zinc cost of production (CoP), before royalty and adjusted for one-time costs (COVID-19 related donations and start-up costs) was US\$954 (₹72,004) per tonne for Q1FY21, down 11% YoY in US\$ terms (down 3% YoY in rupee terms) and down 4% QoQ in US\$ terms (flat in rupee terms) Global supply side adjustments, driven by closure of mines has pulled up LME zinc prices. Chinese demand for zinc remains strong driven by infrastructure and white goods. World-ex China demand however remains under pressure. While the company has witnessed some green shoots in domestic demand, it expects further improvement from Q2FY21. FY21 production guidance of mined and finished metal stands 925-950kt. The company also expects the CoP to remain below USD 1,000. Current net cash stands at ₹155bn. Domestic market was largely closed in Apr'20 and resumed partly in May'20 and Jun'20. Hence, exports rose from 25% under a normal scenario to about 70% during May-Jun'20. Rupee depreciation helped exports. With domestic market opening up, the situation is expected to start reversing at Q2FY21-end.
- **Prices** – Differential price between exports and domestic at USD100-120/t higher if sold in the domestic market. Metal premium was low due to a decline in international benchmark and higher exports. Acid credit declined in the quarter down by 40%-45%. Acid price realizations was down in Q1FY21 due to COVID-19 as customers remained shut, while HZL continued operations, resulting in excess supply in the local market.
- **FY21 guidance** – Both mined metal and finished metal production in FY21 will be higher than the last year and is expected to be around 925 to 950kte. Production of saleable silver is estimated at 650t for FY21, lower than the run rate achieved in Q4FY20. Project capex guidance for FY21 stands at USD 100-140mn. It has increased its silver production by 4.1x to over 600MT (currently contributing 13% to overall topline). Going forward, plans are to increase silver production to ~1000 MT going ahead, through higher production from existing, new deposits and also through enhanced recovery process Total capex, including sustenance capex, likely to be in the range of USD 300mn (±20mn). A delay in the commissioning of the backfill plant at Zawar mines is largely due to foreign travel restrictions post COVID-19 and border tensions with China. The company expects the project to be completed by Q2FY21.

As on 30 June 2020, HZL's net cash & cash equivalents were at ₹154.8bn and is invested in high quality debt and other fixed income instruments.

### Key Operating and Financial Metrics

(₹mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net sales	38,980	49,240	(21)	43,210	(10)
EBITDA	15,760	24,770	(36)	19,640	(20)
EBITDA margin %	39.5	49.7		44.7	
PAT	13,590	17,650	(23)	13,390	1
PAT margin %	34.1	35.4		28.2	
EPS (₹)	3.2	4.2	(23)	3.2	1

**Production Volume (kt)**

Production Volume (kt)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY(%)	QoQ(%)
Mined metal content	213	219	235	249	202	-5	-19
Refined Zinc	172	166	178	172	157	-9	-9
Refined Lead	48	44	41	49	44	-8	-11
Saleable Silver (in MT)	159	134	149	168	117	-26	-30
<b>Sales Volume (kt)</b>							
Zinc Sales Volume	168	168	172	173	163	-3	-6
Lead Sales Volume	48	44	42	48	45	-6	-5
Total Metal Sales	215	212	214	220	208	-3	-6
Silver Sales Volume (in MT)	155	135	153	144	146	-6	2

**Segment Revenue**

(₹mn)

Segment Revenue	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY(%)	QoQ(%)
Refined Zinc	35,100	30,510	31,650	29,200	25,620	-27	-12
Refined Lead	6,840	6,720	6,520	6,920	6,040	-12	-13
Silver	5,760	5,770	6,900	6,010	6,430	12	7
Others	2,170	2,110	1,650	1,780	1,800	-17	1
<b>Total Revenue</b>	<b>49,870</b>	<b>45,110</b>	<b>46,720</b>	<b>43,910</b>	<b>39,890</b>	<b>-20</b>	<b>-9</b>

**Average Realization / Premium**

Average Realization / Premium	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY(%)	QoQ(%)
Zinc - Realization (\$/t)	3,013	2,584	2,589	2,335	2,082	-31	-11
Zinc - LME (\$/t)	2,763	2,348	2,388	2,128	1,961	-29	-8
Premium over LME - (\$/t)	250	236	201	207	121	-52	-42
Lead - Realization (\$/t)	2,070	2,192	2,200	2,007	1,778	-14	-11
Lead - LME (\$/t)	1,885	2,028	2,045	1,847	1,673	-11	-9
Premium over LME - (\$/t)	185	164	155	160	105	-43	-34

**Cost of Production**

Cost of Production	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY(%)	QoQ(%)
CoP - Zinc (reported)(USD/t)	1067	1,048	1,077	997	954	-11	-4
CoP - Zinc (reported)(INR/t)	74,220	73,754	76,571	72,220	72,004	-3	0

**Technical View**

After posting a fresh 52-week low of around 106 during mid March, 2020; HINDZINC witnessed V-shape recovery. In that optimism, stock surpassed its previous weekly swing highs of around 206 and extended its gains till 259. Of late, stock witnessed bouts of profit booking as a result stock gradually descended and precisely came near to its support of 206 which coincided with its previous weekly swing highs (change of polarity rule). Looking at weekly RSI (14), we are seeing a formation of 'Positive Reversal' which indicates stock is oversold and poised for an up move. On a candlestick front, current week candle resembles a formation of 'Bullish Hammer' and said candle precisely came near its support zone therefore it has further significance. Considering the above evidences, **we advocate to accumulate HINDZINC in a range of 205 to 195 with an upside price target of 230 and 240 levels respectively.**



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Name of the Security	Hindustan Zinc Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	Yes
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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