



# Quick Insight Update

## Hindustan Zinc Ltd.



## HINDUSTAN ZINC

Zinc &amp; Silver of India

Industry	Metals & Mining
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CMP	₹233.05
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M Cap (₹ bn)	₹984.71
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Buy Range	₹230-240
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Target	₹255-265
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Recommendation	BUY
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**Investment Argument**

- **Topline driven by higher metal volumes, higher silver prices and Rupee depreciation** – Hindustan Zinc's (HZ) Q2FY21 Net revenues improved 26% YoY to ₹56.6bn driven by higher metal volumes, higher silver prices and Rupee depreciation partly offset by lower LME zinc and lead prices. EBITDA was at ~₹29.5bn. EBITDA jumped 39% YoY and 87% QoQ primarily due to higher revenues and lower operating costs. Silver production in Q2FY21 was at a record level of 203 tonnes higher 51% YoY and 73% sequentially with higher lead production and better silver grades. Silver contributed 22% to revenues (13% in Q2FY20) and 46% to EBIT (32% in Q2FY20). Silver EBIT at ₹10.8bn was the highest ever. Zinc metal cost of production, excluding royalty, decreased 8% YoY in rupee terms to ₹68,228/ton. Costs benefited from lower coal, cement and met coke prices and structural cost reduction initiatives including a reduction in employee costs. Employee costs at ₹1.7bn declined 14% YoY and 29% QoQ with a voluntary retirement scheme offered to employees in Q1FY21 Adjusted PAT at ₹19.4bn was lower 7% YoY and 43% higher QoQ with higher EBITDA offset by lower other income and higher effective tax rate YoY.
- **Mined/ Refined metal production guidance for FY21 has been maintained at 925-950kt** – Mined metal production improved 9%YoY and 18% QoQ to 238K tonnes driven by higher ore production partly offset by a decline in metal grades. Refined integrated metal production at 237k tonnes was higher ~13% YoY and 18% QoQ. For 1HFY21, volumes increased +2% YoY for mined metal and +20% YoY for silver. HZL is at the final stage of increasing its mined metal capacity to 1.2 mtpa from 1 mtpa whereas COVID-led disruptions have caused a 6-9 months delay in a few projects. The back-fill plants at Zawar are under commissioning while the fumer project at Chanderiya is ready for commissioning. The commissioning of the fumer project at Chanderiya has got delayed due to visa restrictions on Chinese nationals, who are required to provide the necessary OEM support for the same. Environmental clearance (EC) recommended for Zawar mine expansion from 4 to 4.8 mtpa. —both the back-fill plants at Zawar are under commissioning and are expected to start from Oct'20. This will improve mine stability and allow mining of left out grade ore in pillars. Once all clearance are achieved HZL's mined metal capacity would increase from 1 mtpa to 1.2 mtpa in FY21. FY21 guidance for mined/ refined metal production has been maintained at 925-950kt with silver production targeted at 650 tonnes. Silver refining capacity would increase from 800TPA to 1,000TPA over the next three years which would be a ~60% jump over FY20 production level of 610 tonnes. Hindustan Zinc would be among the top three global producers at a production level of 1,000 tonnes per annum.
- **Zinc cost of Production targeted at US\$ 1000/tonne for FY21** – Zinc metal cost of production, excluding royalty, decreased 8% YoY in Rupee terms to ₹68,228/ton. Costs benefited from lower coal, cement and met coke prices and a reduction in employee costs aided by higher volumes and acid credits. Zinc price is up 30% from Mar'20 lows led by (1) stronger-than-expected demand recovery in China, (2) mine supply disruptions and (3) buoyant sentiments and higher liquidity. Management informed that zinc demand in India has recovered to pre-COVID levels and global demand is also recovering gradually, led by China. Management expects the current strength in LME zinc price to be supported by lower mined metal supply, prolonged delays in new capacities, and lower zinc inventory, coupled with strong demand in China. We are likely to witness price of US\$ 2,250/2,150/ton for FY21/22 against spot at US\$ 2,450/ton. The management is targeting a cost below US\$ 1,000/tonne in FY21 (US\$ 965/t in 1HFY21) over the FY20 average cost of US\$1,047/tonne.

<b>Nifty</b>	11,938
<b>Sensex</b>	40,707
<b>Key Stock Data</b>	
CMP	₹233.05
Market Cap (₹)	₹984.71bn
52W High/Low	₹259/122
Shares o/s (mn)	4,225
Daily Vol. (3M NSE Avg.)	3,429,276
<b>Shareholding pattern (%) Sep'20</b>	
Promoter	64.9
FII	1.0
DII	2.4
Govt. of India	29.5
Public	1.9
<b>Promoters Pledge</b>	<b>₹13.96bn</b>

(₹ mn)				
Particulars	FY18	FY19	FY20	1HFY21
Revenues	220,840	211,180	185,610	96,490
EBITDA	122,720	106,700	88,470	45,280
EBITDA Margin (%)	55.6	50.5	47.7	46.9
Net Profit	92,760	79,560	68,050	32,990
EPS (₹)	21.2	18.8	15.2	7.8
DPS (₹)	8	20	16.5	
RoE (%)	27.1	22.9	19.7	
RoCE (%)	25.8	21.2	17.4	
P/E (x)	11.0	12.4	15.3	
EV/EBITDA (x)	5.2	6.5	8.3	
P/BV (x)	2.6	2.9	3.0	

Source: Company Data, Way2Wealth Inst Equity



- **Declared Interim dividend of ₹21.3 per share, Capex guidance of US\$ 300mn for FY21** – Board of Directors have approved an interim dividend of ₹21.3 per share in addition to the dividend of ₹16.5 per share declared in FY20 cumulates to a total dividend of ₹37.8 per share over the past two quarters. Gross cash and cash equivalents were at ₹ 276.3bn and net cash and cash equivalents at the end of Sep'20 stood at ₹178.3bn higher 15% QoQ aided by strong operational cash flows in Q2FY21. Total capex guidance for FY21 was at US\$ 300mn including project capex of US\$ 100-140mn.
- **MoU for Zinc smelter** – HZL has signed a memorandum of understanding with the Gujarat government to set up a 300 KTPA greenfield zinc smelter at Doswada, GIDC. Spread over 415 acres, the facility will entail an investment of ₹50-100bn in phases. As per the management, a coastal smelter would be used to process a combination of captive and third-party concentrate. HZL is currently evaluating the project economics and would proceed only if IRRs are higher than their internal hurdle rate.
- **Exports** – Normally, domestic volumes form ~75% of HZL's volumes whereas only 25% of volumes are exported. As domestic demand was severely impacted by Covid-19, HZL continues to export higher volumes YoY. The management highlighted that domestic demand is witnessing strong sequential recovery and gradually approaching pre-COVID levels.
- **Fertilizer plant** – HZL is aggressively pursuing the project. The location for the plant has been finalized. The company is awaiting some regulatory clearances before approaching the Board for a firm approval.
- **View** – Volume ramp-up, however, has been lagging guidance. Promoter Vedanta Ltd pledging part of its shareholding in HZL is an additional overhang on the stock. Zinc outlook would be supported by the broadly balanced market in CY20, supply cutbacks and gradual recovery in demand with easing of lock-down. Strong silver prices, lower costs and recovery in metal volumes would support earnings. Strong growth visibility, high payout, FCF yield and inexpensive valuations compel it to be an attractive risk-reward. Hence, we continue to see it as a value **BUY** (<https://tinyurl.com/y3cxe6mf>) for the near to medium term with fair price of ₹255-265.

### Key Operating Metrics

(₹mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Net sales	56,600	45,110	25	39,890	42
EBITDA	29,520	21,170	39	15,760	87
EBITDA margin %	52.2	46.9		39.5	
PAT	19,400	20,810	(7)	13,590	43
PAT margin %	34.3	46.1		34.1	
EPS (₹)	4.6	4.9	(6)	3.2	44

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net sales	39,890	49,240	(19)	43,210	(8)
EBITDA	15,760	24,770	(36)	19,640	(20)
EBITDA margin %	39.5	50.3		45.5	(13)
PAT	13,590	17,650	(23)	13,390	1
PAT margin %	34.1	35.4		28.2	21
EPS (₹)	3.2	4.2	(23)	3.2	-

Source: Company Data, Way2Wealth Inst Equity

**Production Volume**

Production Volume	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY(%)	QoQ (%)
Mined metal content ('000 tonne)	213	219	235	249	202	238	8.7	17.8
Refined Zinc ('000 tonne)	172	166	178	172	157	180	8.4	14.6
Refined Lead ('000 tonne)	48	44	41	49	44	57	29.5	29.5
Saleable Silver (tonne)	159	134	149	168	117	203	51.5	73.5
Zinc - LME (\$/t)	2,761	2,761	2,392	2,131	1,968	2,340	(15.2)	18.9

Source: Company Data, Way2Wealth Inst Equity

**Segment Revenue**

(₹mn)

Segment	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY(%)	QoQ (%)
Refined Zinc	35,100	30,510	31,650	29,200	25,620	33,230	8.9	29.7
Refined Lead	6,840	6,720	6,520	6,920	6,040	8,610	28.1	42.5
Silver	5,760	5,770	6,900	6,010	6,430	12,370	114.4	92.4
Others	2,170	2,110	1,650	1,780	1,800	2,390	13.3	32.8
<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>56,600</b>	<b>25.5</b>	<b>41.9</b>

Source: Company Data, Way2Wealth Inst Equity

**Cost of Production**

Cost of Production	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY(%)	QoQ (%)
CoP - Zinc excl royalty (reported) (USD/t)	1,067	1,048	1,077	997	954	919	(12.3)	(3.7)
CoP - Zinc excl royalty (reported) (₹ /t)	74,220	73,754	76,571	72,220	72,004	68,228	(7.5)	(5.2)

Source: Company Data, Way2Wealth Inst Equity

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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
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