

Hindustan Zinc

Estimate change	↔
TP change	↔
Rating change	↔

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Bloomberg	HZ IN
Equity Shares (m)	4225
M.Cap.(INRb)/(USD\$)	1344.5 / 16.4
52-Week Range (INR)	383 / 261
1, 6, 12 Rel. Per (%)	-1/-19/-6
12M Avg Val (INR M)	302

Financials & valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	341	331	353
EBITDA	175	160	193
EBITDA margin	51	48	55
NP	105	94	119
Adj. EPS (INR)	25	22	28
EPS Gr(%)	8	-10	26
BV/Sh. (INR)	31	43	61

Ratios

Net D:E	0.0	-0.3	-0.6
RoE (%)	44.5	60.8	54.0
RoCE (%)	47.9	45.9	47.5
Payout (%)	303.5	44.8	35.6

Valuations

P/E (x)	12.8	14.2	11.3
P/BV	10.4	7.4	5.2
EV/EBITDA (x)	7.7	8.1	6.2
Div. Yield (%)	23.7	3.1	3.1
FCF Yield (%)	8.6	7.0	10.2

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	64.9	64.9	64.9
DII	32.5	32.5	32.5
FII	0.8	0.8	0.9
Others	1.8	1.8	1.7

FII Includes depository receipts

CMP: INR318 **TP: INR300 (-6%)** **Neutral**

Performance in line; guidance retained

- Hindustan Zinc (HZ)'s 1QFY24 revenue came in at INR73b (down 22% YoY), which was in line with our estimate of INR74b.
- EBITDA stood at INR33b (down 35% YoY), in line with our estimate of INR33b. The decline in EBITDA was attributed to lower LME prices that were partially offset by lower cost of production (CoP).
- The CoP dipped to USD1,194/t in 1QFY24 from USD1,214/t in 4QFY23. The decline in CoP was driven by benefits from higher coal linkages, softening coal prices, better ore grades and a strong operational performance.
- APAT stood at INR20b (down 37% YoY) in line with our estimate of INR19b.
- Refined zinc sales for 1QFY24 stood at 208kt (up 1% YoY), refined lead sales came in at 50kt (down 7% YoY) and silver sales stood at 179t (up 1% YoY).
- HZ posted the highest ever 1Q mined metal production aided by higher ore production at Kayad and Rampura Agucha mines, improved metal grades and better-than-expected mill recovery.
- Refined lead production was hit by low plant availability, which indirectly impacted silver production adversely QoQ in 1QFY24.

Guidance on volume and CoP maintained

- **FY24 guidance:**
 - Management has a strong focus on cost optimization, maintaining higher sales volumes and enhancing the share of VAP
 - HZ maintained its mined metal production target of 1,075-1,100kt, refined metal production target of 1,050-1,075kt and saleable silver target of 725-750t.
- Management has also maintained its cost guidance at USD1,125-1,175/t (with a strong focus on the lower end of the band).
- FY24 maintenance capex is expected to be ~USD375m, of which the company has already incurred USD90m in 1QFY24 and the project capex is expected to be ~USD175-200m.
- Gross debt currently stands at INR93b and cash & cash equivalents on books are around INR97b.

Valuation and view

- Management has reiterated its FY24 mined metal volume guidance of over 1.1mt and expects the CoP to be in the range of USD1,125-1,175/t.
- HZ is currently trading at a rich valuation of 6.2x FY25E EV/EBITDA. We retain our estimates for FY24 and FY25 and reiterate our **Neutral** rating on the stock with a TP of INR300 (premised on 6x FY25E EV/EBITDA).

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Quarterly Performance

Y/E March	FY23				FY24E				FY23		FY24E		Vs. Est. %
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	1Q	2Q	
Mine prodn. (kt)	252	255	257	301	257	269	278	282	1,062	1,086			
Sales													
Zinc refined (kt)	206	189	210	216	208	211	213	217	821	849			
Lead refined (kt)	54	57	46	54	50	53	55	56	211	214			
Silver (tonnes)	177	194	161	182	179	180	185	188	714	732			
Net Sales	94	83	79	85	73	78	89	91	341	331	74	(1)	
Change (YoY %)	43.7	36.2	-1.6	-3.3	-22.4	-6.2	13.1	6.7	15.8	-3.0			
Change (QoQ %)	6.7	-11.2	-5.6	8.2	-14.4	7.4	13.8	2.0					
EBITDA	51	44	37	43	33	38	44	45	175	160	33	1	
Change (YoY %)	44.4	32.1	-15.2	-14.2	-34.8	-14.9	18.6	5.2	7.9	-8.8			
Change (QoQ %)	3.5	-14.2	-15.9	14.8	-21.3	12.1	17.2	1.8					
As % of Net Sales	54.7	52.9	47.1	50.0	46.0	48.0	49.4	49.3	51.3	48.3			
Finance cost	0	1	1	2	2	2	2	2	3	9	1		
DD&A	7	8	8	9	8	9	9	9	33	34	9		
Other Income	3	4	3	4	3	2	2	2	14	9	2		
PBT (before EO item)	47	39	32	35	26	29	35	36	153	126	26		
EO exp. (income)	0	0	0	0	0	0	0	0	0	0			
PBT	47	39	32	35	26	29	35	36	153	126	26		
Total Tax	16	12	10	9	6	7	9	9	48	32			
% Tax	33.8	31.7	32.3	26.3	24.8	25.2	25.2	25.2	31.2	25.1			
Reported PAT	31	27	22	26	20	22	26	27	105	94	19	2	
Adjusted PAT	31	27	22	26	20	22	26	27	105	94	19	2	
Change (YoY %)	55.9	32.9	-20.2	-11.8	-36.5	-19.2	22.8	3.1	9.2	-10.2			
Change (QoQ %)	5.6	-13.3	-19.6	19.8	-24.0	10.3	22.3	0.6					

Source: Company, MOFSL



Highlights from the management commentary

Guidance on volume and CoP retained

- Management has maintained its zinc CoP guidance at USD1,125-1,175/t for FY24 (with focus on lower end of the band) after a cost reduction of USD20/t in 1QFY24.
- HZ targets to clock mined metal production in the range of 1,075-1,100kt and refined metal production in the range of 1,050-1,075kt. Management expects to report saleable silver production in the range of 725-750kt.
- The company expects robust demand in silver on the back of higher demand from industrial manufacturers, higher usage in EVs, increased usage in RE, etc.
- HZ expects INR80b CF generation in FY24.
- If the Zinc LME is not able to sustain the USD2,000/t level, majority of the zinc manufacturers across the globe would have to shut down their business due to non-viability.
- No change in royalty is expected in the medium term.

Brand fee

- Brand fee is 2% of the revenue and is payable to VEDL.
- The change in the brand fee in future will be subject to Board approval.

Cash and debt

- Cash and cash equivalent as of 1QFY24 stood at INR97b.
- Total debt has been reduced in 1QFY24 and stood at INR93b.
- HZ expects to pare-down the debt from internal CF generation or investments.
- All the investments are in high-quality debt instruments.

Acquisition of Zinc International

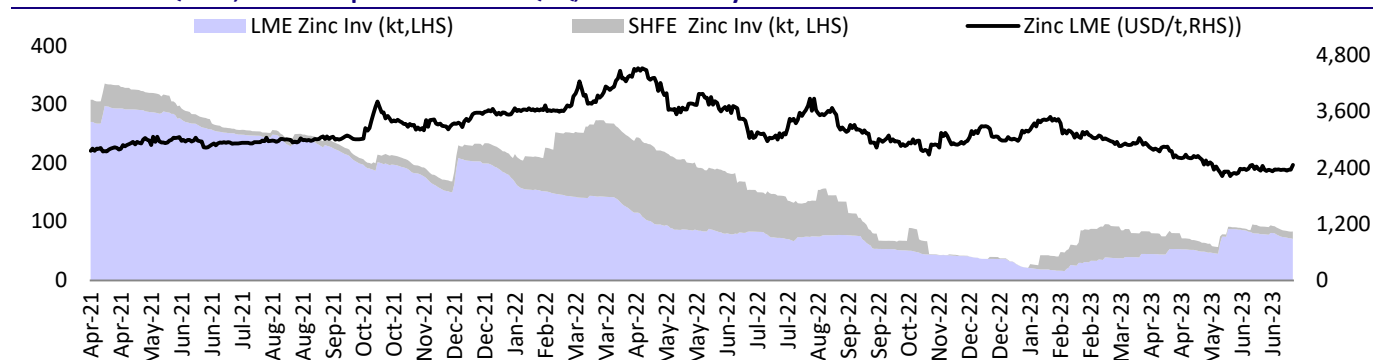
- There was no update on acquisition of Zinc International business from Vedanta.

Capex

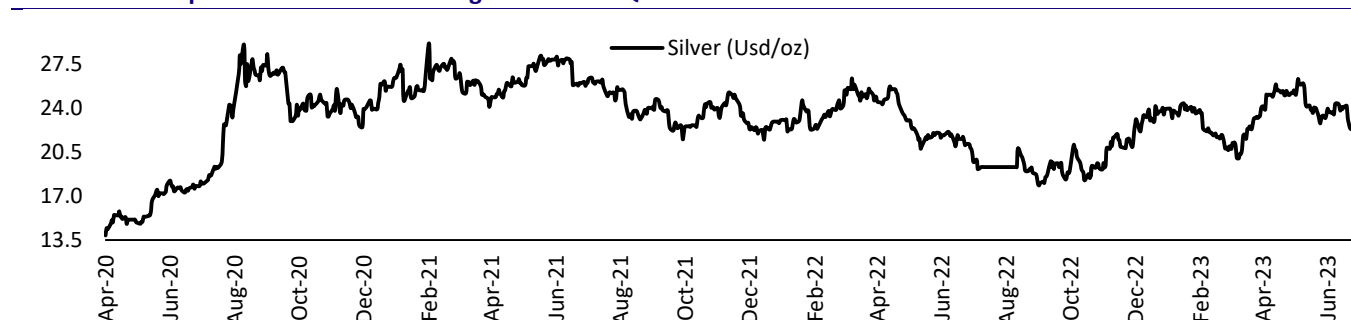
- The project capex of USD175-200m for FY24 remains unchanged, which will be utilized for a fertilizer facility and setting up RE power.
- The maintenance capex is expected to be in the range of USD375m, of which USD90m has already been incurred in 1QFY24.
- Installation work and cold commissioning at Rajpura Dariba mill is expected to be completed in 2QFY24.
- All the work orders for Debari Roaster have been placed and the EPC is expected to commence from 2QFY24.
- A partner has been selected for the fertilizer facility and the remaining orders are expected to be completed in 2QFY24.
- HZAPL's mechanical installation and cold commissioning of alloy plant have been completed and the production is expected to commence in 2QFY24.

Other updates

- The company now controls ~75% of India's primary zinc market.
- The average mine life is around 25 years.
- Domestic zinc demand remains robust driven by higher demand from construction and infrastructure projects.
- Domestic lead demand is expected to increase due to higher demand from automobile sector, industrial battery segment and infrastructure development.
- Exploration is likely to enhance mine R&R by 15mt in FY24E and 40mt in FY25E.

Exhibit 1: In 1QFY24, LME Zinc prices declined QoQ; zinc inventory as on date stands at ~83kt

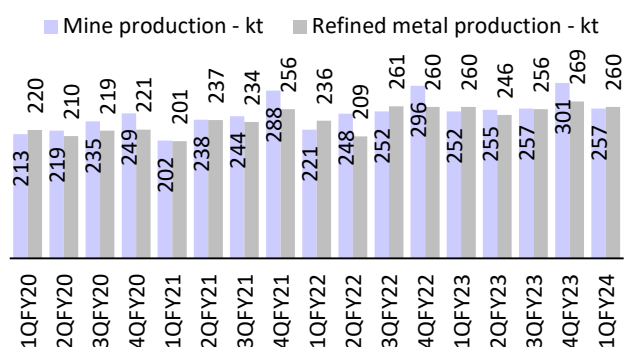
Source: Bloomberg, MOFSL

Exhibit 2: Silver prices have remained range bound in 1QFY24

Source: Investing.com, Bloomberg, MOFSL

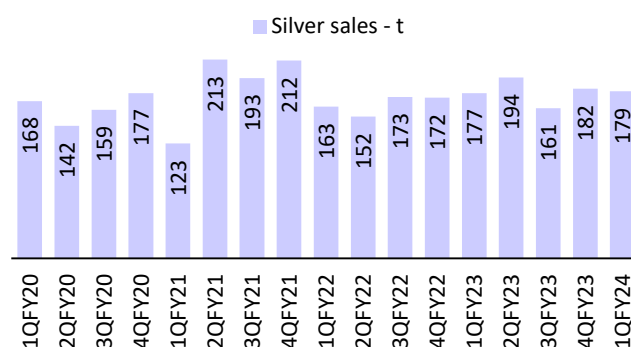
Story in charts

Exhibit 3: Mine production and refined metal production; refined metal production declined QoQ



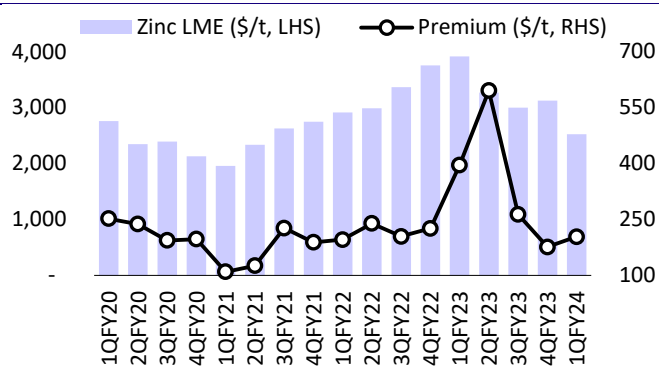
Source: Company, MOFSL

Exhibit 4: Silver production (t) was flat YoY and down 2% QoQ



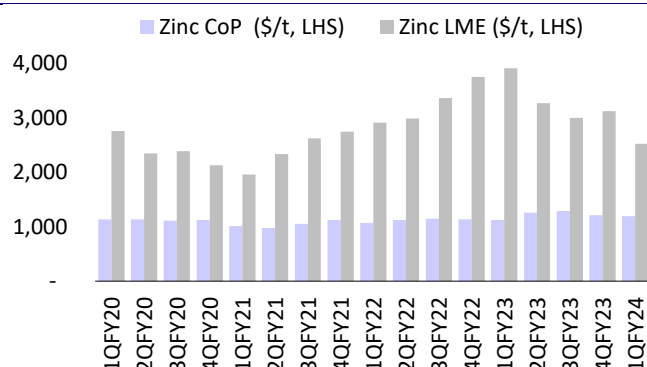
Source: Company, MOFSL

Exhibit 5: Premium during the quarter stood at USD204/t



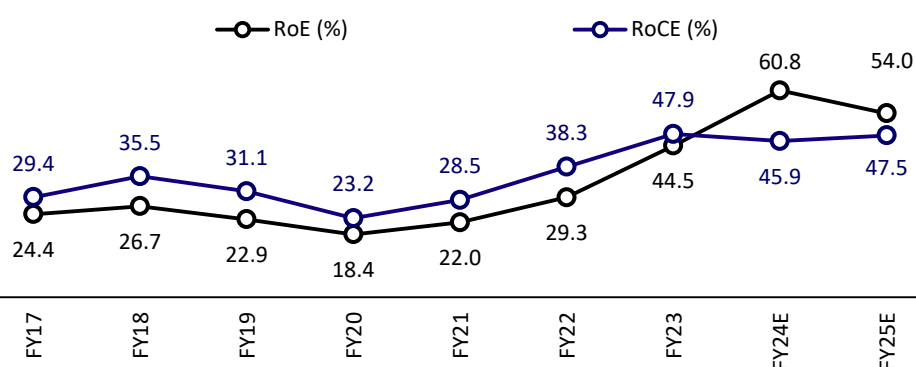
Source: Company, MOFSL

Exhibit 6: CoP eased QoQ



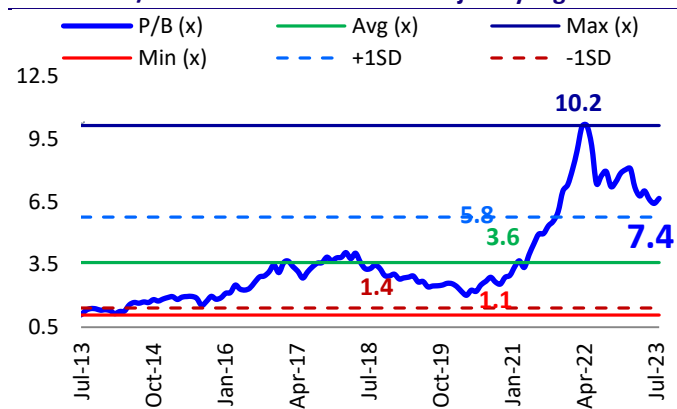
Source: Company, MOFSL

Exhibit 7: ROE/ROCE (%)



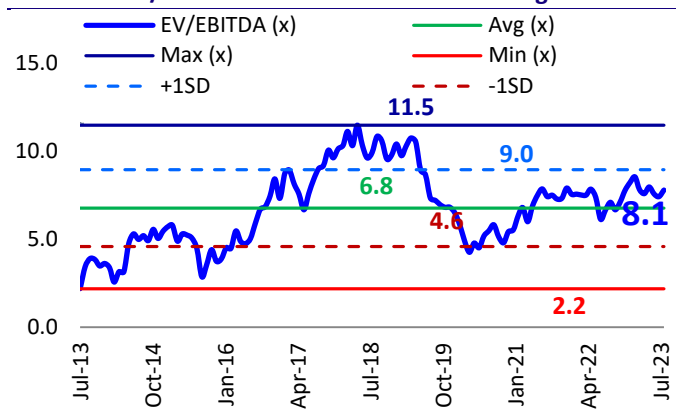
Source: MOFSL, Company

Exhibit 8: P/B ratio at elevated levels to justify high RoE



Source: MOFSL, Company

Exhibit 9: EV/EBITDA remains around the average level



Source: MOFSL, Company

Exhibit 10: Changes to our assumptions and key financials

		FY24E			FY25E		
		New	Old	% change	New	Old	% change
Price Assumptions (LME)							
Zinc	USD/t	2,935	2,935	0%	3,216	3,216	0%
Lead	"	2,017	2,015	0%	2,000	2,000	0%
Silver	INR/kg	67,997	68,338	0%	64,174	64,174	0%
Sales Volume Assumptions							
Refined Zinc	kt	849	849	0%	867	867	0%
Refined Lead	kt	214	215	-1%	215	215	0%
Silver	t	732	729	0%	730	730	0%
Financial Estimates							
Revenue	INR b	331	333	-1%	353	355	-1%
EBITDA	"	160	157	2%	193	189	2%
Adj PAT	"	94	96	-1%	119	119	0%
EPS	INR/sh	22	23	-1%	28	28	0%

Source: MOFSL, Company

Exhibit 11: Valuation remains elevated

Valuation	UoM	FY25E
EBITDA	INR b	193
EV/EBITDA Multiple	x	6
Enterprise Value	INR b	1,142
Add: Net Cash	INR b	142
Equity value	INR b	1,284
Shares outstanding	b	4.23
Target price (INR/share)	INR/sh	300

Source: MOFSL

Financials and valuations

Income Statement								INR b	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	173	221	211	186	226	294	341	331	353
Total Expenses	76	98	104	97	110	132	166	171	159
EBITDA	97	123	107	88	117	162	175	160	193
DDA	18	17	19	23	25	29	33	34	36
EBIT	80	106	88	66	91	133	142	126	157
Finance cost	2	3	1	1	4	3	3	9	8
Other income	24	18	18	19	18	12	14	9	9
PBT	102	121	105	84	106	142	153	126	159
Tax	19	32	25	16	26	45	48	32	40
Rate (%)	18.5	26.3	23.9	18.9	24.5	31.4	31.2	25.1	25.1
PAT (before EO)	83	89	80	68	80	98	105	94	119
EO expense (Income)	0	-2	0	0	0	1	0	0	0
Reported PAT	83	92	80	68	80	96	105	94	119
APAT (after MI & asso)	83	89	80	68	80	98	105	94	119
Change (YoY %)	-0.7	7.2	-10.8	-14.5	17.3	22.3	7.7	-10.2	25.8

Balance Sheet (Consolidated)								INR b	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY24E
Share Capital	8	8	8	8	8	8	8	8	8
Reserves	300	351	328	395	315	334	121	173	250
Net Worth	308	359	336	403	323	343	129	181	258
Total Loans	79	0	25	6	65	28	119	112	105
Deferred Tax Liability	-27	-22	-19	-18	-11	9	23	23	23
Capital Employed	360	337	342	391	377	381	271	316	385
Gross Block	165	178	232	272	300	335	370	404	420
Less: Accum. Deprn.	65	65	84	107	132	161	194	228	264
Net Fixed Assets	100	113	148	165	168	174	176	176	156
Capital WIP	31	32	23	25	19	21	22	22	22
WC. Assets	360	262	235	262	259	252	156	201	291
Inventory	19	14	15	18	14	20	19	18	19
Account Receivables	1	2	2	4	4	7	4	4	4
Cash and Bank Balance	322	222	195	222	223	208	113	158	247
Loans and advances	17	25	23	17	18	17	21	21	21
WC. Liability & Prov.	131	70	63	61	69	66	84	83	84
Trade payables	12	9	12	15	15	20	21	20	22
Provisions & Others	119	61	51	46	54	46	63	63	63
Net WC. Assets	229	192	172	201	190	186	72	118	207
Appl. of Funds	360	337	342	391	377	381	271	316	385

Financials and valuations

Cash Flow Statement

Cash Flow Statement	INR b								
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY24E
EBITDA	97	123	107	88	117	162	175	160	193
Non cash exp. (income)	0	0	0	0	0	1	2	0	0
(Inc)/Dec in Wkg. Cap.	-35	5	7	-11	6	-12	6	0	0
Tax paid	-19	-30	-26	-11	-18	-24	-31	-32	-40
CF from Op. Activity	43	98	88	66	106	127	151	128	153
(Inc)/Dec in FA + CWIP	-10	-27	-34	-36	-24	-30	-35	-33	-17
Free Cash Flow	34	71	54	30	81	97	116	95	137
Interest & Dividend Income	24	5	3	5	15	9	14	9	9
Others	0	0	1	5	1	1	6	0	0
CF from Inv. Activity	15	-22	-31	-26	-8	-20	-15	-24	-7
Debt raised/(repaid)	79	-79	25	-19	65	-43	90	-7	-7
Dividend (incl. tax)	-168	-105	-120	0	-160	-76	-319	-42	-42
Interest paid	0	-2	-2	-2	-2	-3	-3	-9	-8
Others	0	11	13	9	0	0	0	0	0
CF from Fin. Activity	-89	-176	-84	-12	-97	-123	-232	-58	-57
(Inc)/Dec in Cash	-31	-100	-27	27	1	-15	-96	46	89
Add: Opening Balance	353	322	222	195	222	223	208	113	158
Closing Balance	322	222	195	222	223	208	113	158	247

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY24E
Basic (INR)									
EPS	19.7	21.1	18.8	16.1	18.9	23.1	24.9	22.3	28.1
Cash EPS	23.9	25.1	23.3	21.5	24.9	30.0	32.6	30.4	36.6
BV/Share	72.9	85.0	79.5	95.4	76.5	81.1	30.6	43.0	61.1
DPS	29.4	8.0	20.0	16.5	21.3	18.0	75.5	10.0	10.0
Payout (%)	179.3	45.5	127.5	122.9	112.7	77.9	303.5	44.8	35.6
Valuation (x)									
P/E	16.2	15.1	16.9	19.7	16.8	13.8	12.8	14.2	11.3
Cash P/E	13.3	12.7	13.7	14.8	12.8	10.6	9.8	10.5	8.7
P/BV (incl.-goodwill)	4.4	3.7	4.0	3.3	4.2	3.9	10.4	7.4	5.2
EV/Sales	0.0	5.1	5.6	6.1	5.2	4.0	4.0	3.9	3.4
EV/EBITDA	0.0	9.1	11.0	12.7	10.1	7.2	7.7	8.1	6.2
Dividend Yield (%)	9.2	2.5	6.3	5.2	6.7	5.7	23.7	3.1	3.1
Return Ratios (%)									
EBITDA Margins	56.3	55.6	50.5	47.7	51.6	55.1	51.3	48.3	54.9
Net Profit Margins	48.1	40.4	37.7	36.7	35.3	33.2	30.8	28.5	33.7
RoE	24.4	26.7	22.9	18.4	22.0	29.3	44.5	60.8	54.0
RoCE (pre-tax)	29.4	35.5	31.1	23.2	28.5	38.3	47.9	45.9	47.5
RoIC (pre-tax)	465.8	137.9	67.0	41.6	56.7	81.5	86.1	79.6	106.2
Working Capital Ratios									
Fixed Asset Turnover (x)	1.7	2.1	1.6	1.2	1.4	1.7	1.9	1.9	2.1
Receivable (Days)	3	3	3	8	7	9	4	4	4
Inventory (Days)	41	23	27	36	23	24	20	20	20
Trade payable (Days)	25	16	20	29	25	25	22	22	22
Leverage Ratio (x)									
Current Ratio	2.8	3.7	3.7	4.3	3.7	3.8	1.9	2.4	3.5
Interest Cover Ratio	51.6	43.7	90.4	75.9	28.4	50.1	46.9	15.5	20.4
Net Debt/EBITDA	-2.5	-1.8	-1.6	-2.4	-1.4	-1.1	0.0	-0.3	-0.7
Net Debt/Equity	-0.8	-0.6	-0.5	-0.5	-0.5	-0.5	0.0	-0.3	-0.6

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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