

22 October 2023

Hindustan Zinc

Earnings continue to decline on lower commodity prices

RESULT UPDATE

Sector: Metals **Rating:** HOLD
CMP: Rs 309 **Target Price:** Rs 287

Stock Info

Sensex/Nifty	65,397/ 19,542
Bloomberg	HZ IN
Equity shares (mn)	4225
52-wk High/Low	Rs 383/277
Face value	Rs 2
M-Cap	Rs 1,297bn/USD 15.8bn

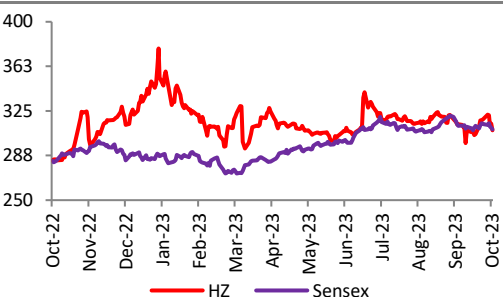
Financial Snapshot (Rs bn)

Y/E Mar	FY23	FY24E	FY25E
Sales	341.0	301.0	335.0
EBITDA	175.1	133.7	159.8
PAT	105.1	81.7	99.9
EPS (Rs)	28.1	19.3	23.6
PE (x)	10.9	15.9	13.0
EV/EBITDA (x)	7.2	9.4	7.9
RoE (%)	44.5	61.8	70.0
RoCE (%)	55.0	39.1	45.3
Dividend yield (%)	24.6	5.9	6.5

Shareholding Pattern (%)

	Sep'23	Jun'23	Mar'23
Promoter	64.9	64.9	64.9
-Pledged	64.5	64.5	87.6
FII	0.8	0.8	0.8
DII	3.0	3.0	3.0
Others	31.4	31.3	31.3

Stock Performance (1-year)



Hindustan Zinc (HZ)'s 2QFY24 revenue of Rs 66.2bn (-20.6%/-6.9% YoY/QoQ) was in line with our estimate. EBITDA of Rs 31.4bn -28.8%/-6.2% YoY/QoQ was 12% above our estimate due to lower power & fuel and raw material costs. At 185kt, zinc volumes were lower by 2.1%/11.5% YoY/QoQ largely due to lower ore production at the Rampura Agucha and Kayad mines. Zinc/lead prices averaged at USD 2,428/t (-25.9%/-4.5% YoY/QoQ) and USD 2,170/t (+9.8%/2.5% YoY/QoQ), respectively, during the quarter. Silver prices averaged USD 23.6/Oz and were up 22.6% YoY but fell 2.5% QoQ. Before royalty, zinc's cost of production (CoP) was USD 1,137/t (-9.7%/-4.8% YoY/QoQ), within the annual guidance of USD 1,125-1,175/t, due to improved grades across mines. By 1HFY24, HZ has achieved 48% of its annual mined metal guidance (zinc + Lead metal) of 1.05-1.075mt for FY24, and ~49% of its silver production guidance. Total borrowings have fallen by 4% to Rs 113.2bn from FY23 levels with a cash balance of Rs 112.6bn. We have factored in mined metal production at 1.06mt (+2.7% YoY) and silver production at 744t (+4.1% YoY) for FY24. We revise our FY24E/FY25E EBITDA downward by 25%/17% to account for lower metal prices partially offset by lower cost of production. We value HZL at 7.5x FY25E EBITDA and lower the TP to Rs 287/share (Rs 348/share earlier). **MAINTAIN HOLD.**

Key takeaways from 2QFY24 earnings call

Demand outlook: Management maintains a positive stance on the expected growth in zinc demand in India due to elevated infrastructure and construction activities and increasing steel output. Silver and lead demand will also be robust led by increasing activity in the electric vehicles and battery space.

Operational efficiency enables lower CoP: HZ continues to work on mining efficiency to ensure better ore grades leading to higher refined metal output at lower cost of production; a key positive in the low LME price environment. Zinc CoP improved sequentially due to better grades; a trend likely to continue in 2HFY24. Mine development during the quarter was 24km.

Capex guidance: Project capex guidance of USD 175-200mn for FY24 remains unchanged and maintenance capex for the year is expected to be at USD 375mn.

Project updates: The fumer project at Chanderiya is under full ramp up and is expected to be completed this quarter; will enable better metal recovery ratios. HZ alloy plant with a capacity of 30ktpa was commissioned in September and commenced production in the first week of October. HZ's foray into the zinc alloy segment marks a notable step as it aims to transition from a commodity-based to a product-based company. Rajpura Dariba smelter capacity expansion from 0.9mtpa to 1.1mtpa was also commissioned in 2QFY24 and full ramp up is targeted this quarter.

Global scenario: Zinc prices fell by 25.7%/4.5% YoY/QoQ to USD 2,428/t in 2QFY24, largely due to global supply-demand imbalance, inflationary pressures, and geopolitical issues. International Lead and Zinc Study Group (ILZSG) has now revised its April assessment of the global zinc market from a deficit of 45,000 tons to a surplus of 367,000 tons for 2024. The market's shift to surplus after sustaining two years in the deficit territory is due to weaker demand outlook, especially in Europe. Lead prices averaged at USD 2,170/t (+9.8% YoY, 2.5% QoQ) and have largely remained range-bound over the last year due to higher demand from automotive and industrial battery segments. While the domestic demand outlook remains positive, zinc and lead prices are ruled by various global factors which remain as the key monitorable.

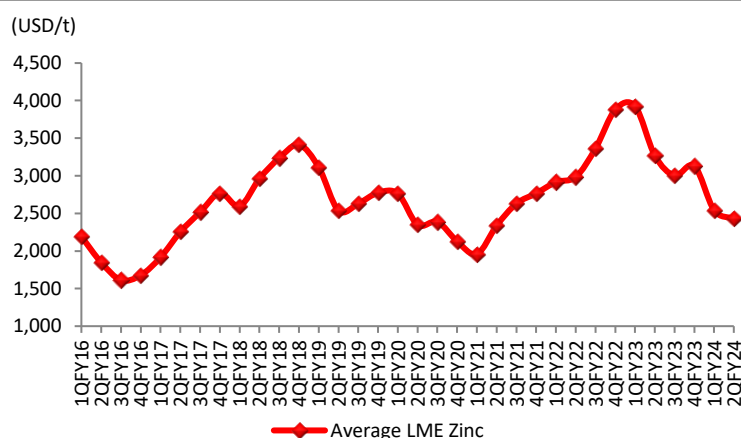
Shweta Dikshit
 shwetadikshit@systematixgroup.in
 +91 22 6704 8042

Exhibit 1: Quarterly snapshot

(Rs bn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Net revenues	83	79	83	71	66
YoY change (%)					(20.6)
QoQ change (%)					(6.9)
Expenditure	39	42	43	39	37
EBITDA	44.1	37.1	40.3	33.5	31.4
YoY change (%)					(28.8)
QoQ change (%)					(6.2)
EBITDA Margin (%)	52.9	47.1	48.6	47.1	47.4
Net earnings	27	22	24	20	17
YoY change (%)					(35.5)
QoQ change (%)					(12.0)

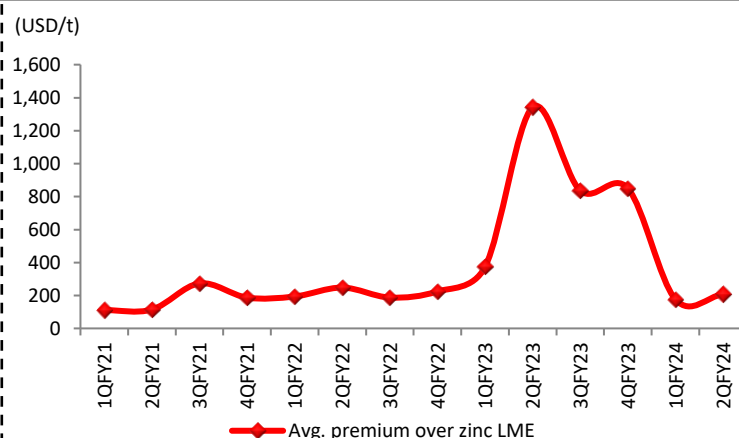
Source: Systematix Institutional Research

Exhibit 2: Zinc prices lower on YoY and QoQ basis



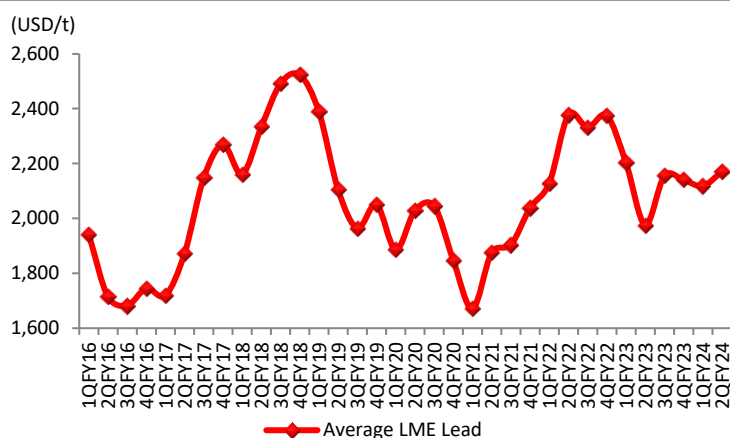
Source: Company, Systematix Institutional Research

Exhibit 3: Premium over average LME zinc price rises in 2QFY24



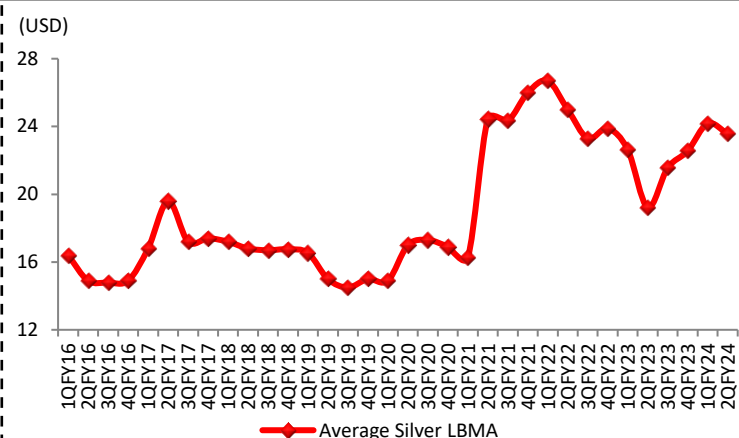
Source: Company, Systematix Institutional Research

Exhibit 4: Lead prices recover marginally during the quarter (USD/t)



Source: Company, Systematix Institutional Research

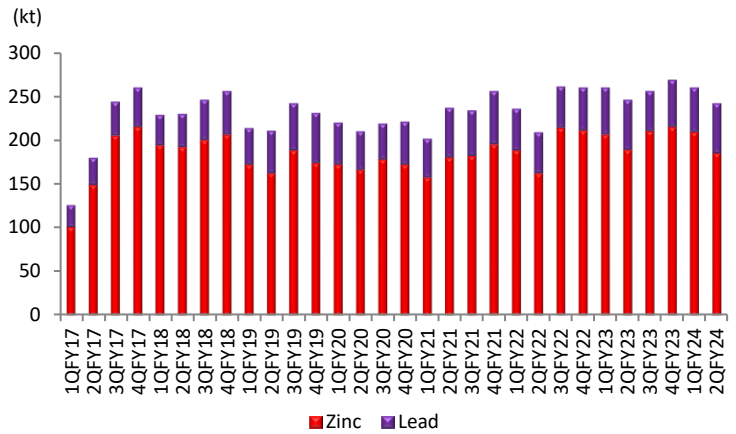
Exhibit 5: Silver prices fall in 2QFY24 (USD/Oz)



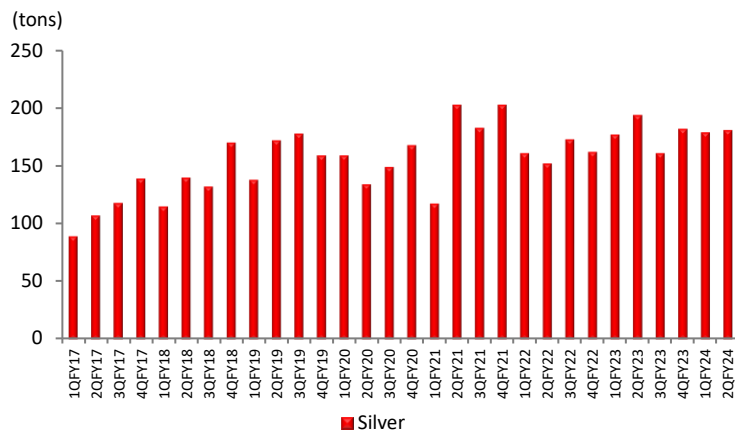
Source: Company, Systematix Institutional Research

Exhibit 6: Mined metal output to remain steady

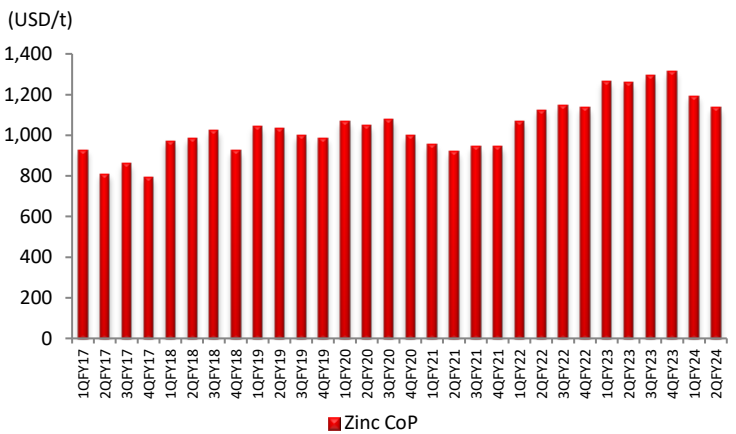
Source: Company, Systematix Institutional Research

Exhibit 7: Quarterly zinc and lead volumes

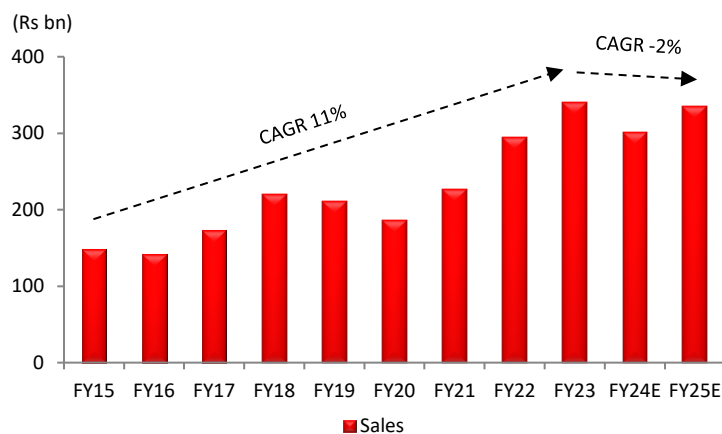
Source: Company, Systematix Institutional Research

Exhibit 8: Silver volumes flat sequentially

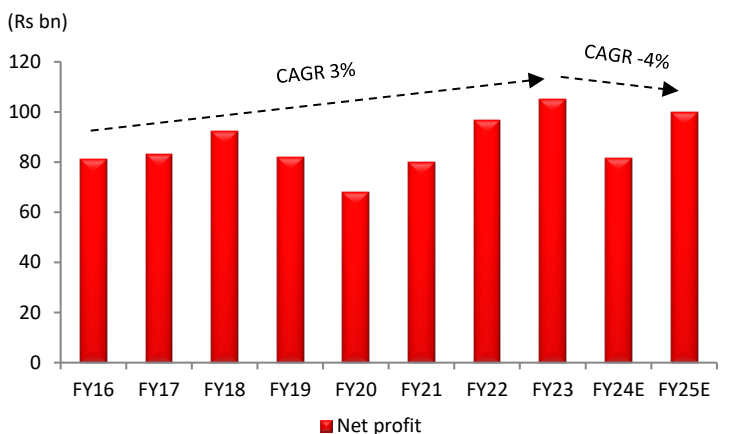
Source: Company, Systematix Institutional Research

Exhibit 9: Zinc's CoP continues downward trend

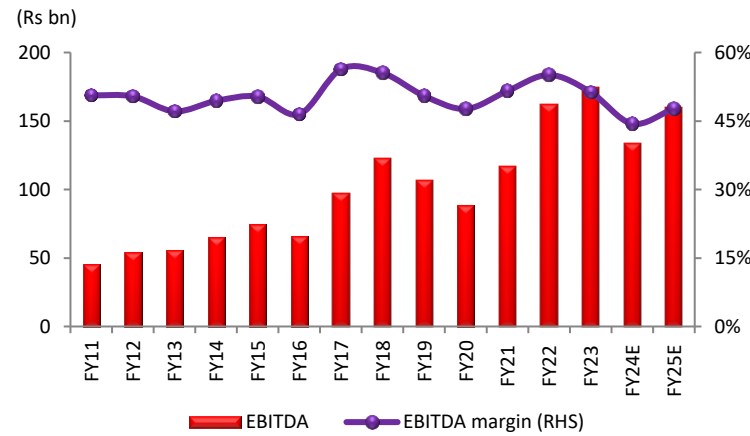
Source: Company, Systematix Institutional Research

Exhibit 10: Revenue to decline over FY23-FY24E

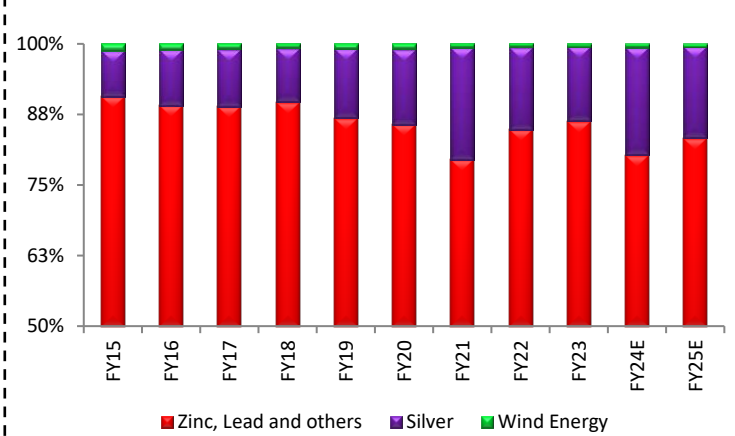
Source: Company, Systematix Institutional Research

Exhibit 11: PAT to decline higher on lower metal prices

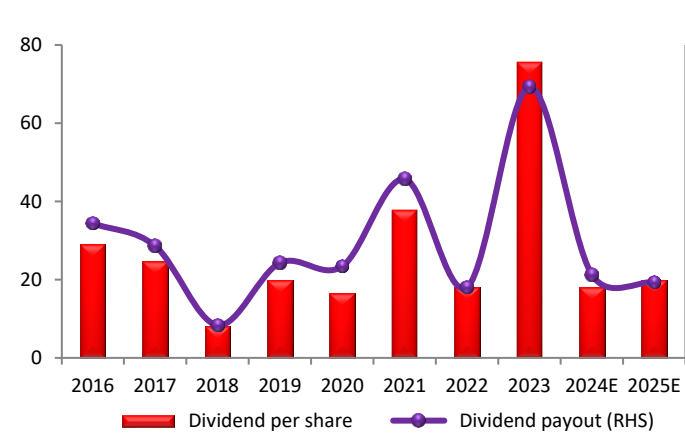
Source: Company, Systematix Institutional Research

Exhibit 12: EBITDA and EBITDA margin trend

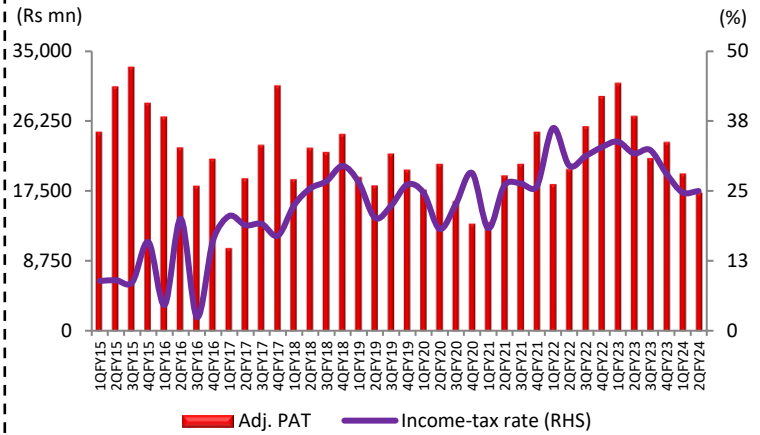
Source: Company, Systematix Institutional Research

Exhibit 13: Silver shows consistent growth in revenue share

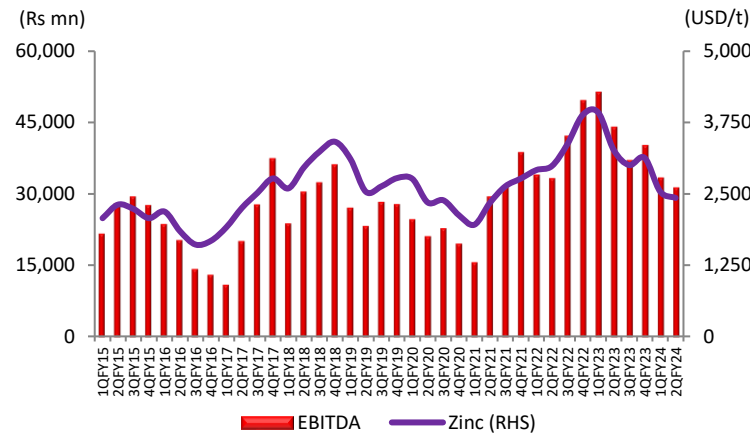
Source: Company, Systematix Institutional Research

Exhibit 14: Dividend payout to stabilise in FY24/FY25

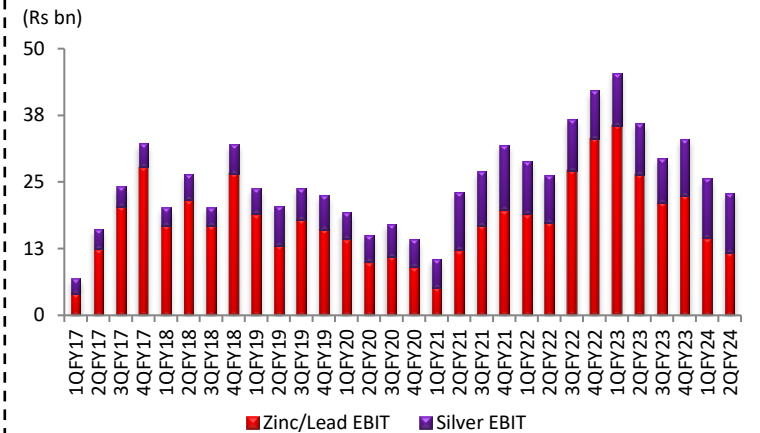
Source: Company, Systematix Institutional Research

Exhibit 15: Quarterly adjusted PAT and tax rates

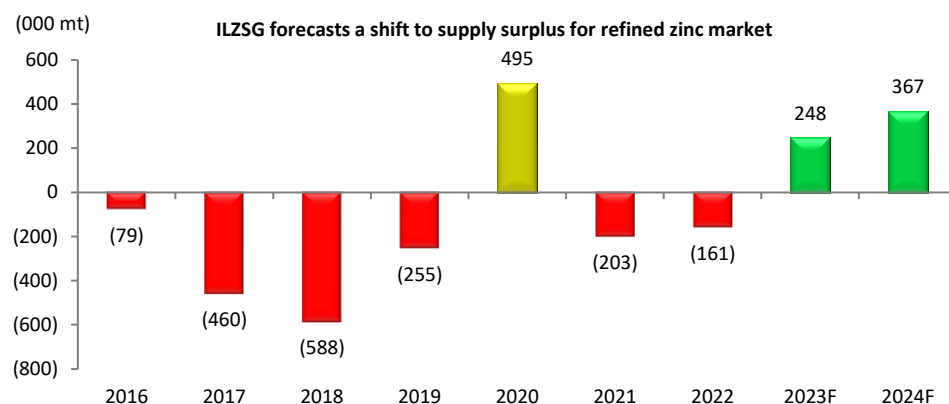
Source: Company, Systematix Institutional Research

Exhibit 16: Quarterly zinc prices and EBITDA

Source: Company, Systematix Institutional Research

Exhibit 17: Zinc/lead EBIT and silver EBIT

Source: Company, Systematix Institutional Research

Exhibit 18: Global zinc market estimated to shift to a surplus

Source: ILZSG, Systematix institutional research

Exhibit 19: Revised estimates

(Rs bn)	Previous		New		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net sales	314.3	337.0	301.0	335.0	-4%	-1%
EBITDA	177.1	193.1	133.7	159.8	-25%	-17%
PAT	114.2	124.9	81.7	99.9	-28%	-20%

Source: Systematix Institutional Research

Valuation and view**Exhibit 20: Valued on EV/EBITDA (FY25E)**

	Discount	EBITDA (Rs bn)	Multiple (x)	Enterprise Value	
				(Rs bn)	(Rs/ share)
EBITDA		160	7.5	1,199	284
Less: Net debt		-	-	1	0
Add: CWIP				15	3
Equity value				1,213	287
Target price per share				287	

Source: Systematix Institutional Research

Exhibit 21: Key assumptions

Saleable volumes	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Mine production (tonnes)							
Zinc ingot production (Mt)	694	680	724	777	820	828	834
Lead ingot production (Mt)	198	180	216	192	211	231	268
Silver production (Tn)	670	607	735	647	714	744	761
Total	892	860	940	969	1,031	1,059	1,102
LME prices							
LME Zinc prices (US\$/ton)	2,700	2,500	2,400	3,257	3,319	2,505	2,600
LME Lead prices (US\$/ton)	2,100	2,000	1,850	2,285	2,101	2,160	2,250
LME Silver price (US\$/oz)	17.0	16.5	23.0	24.6	20.0	24.4	25.9
Re/USD Exchange rate	70	70	74	74	80	83	83

Source: Systematix Institutional Research

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs bn)	FY21	FY22	FY23	FY24E	FY25E
Net revenues	226	294	341	301	335
Expenditure	110	132	166	167	175
EBITDA	117	162	175	134	160
Depreciation	25	29	33	36	39
Other income	18	12	14	15	17
EBIT	110	145	156	113	138
Interest expenses	4	3	3	4	5
PBT	106	142	153	109	133
Tax	26	45	48	27	33
Adjusted PAT	80	97	105	82	100
EPS (Rs/share)	20.7	27.9	28.1	19.3	23.6

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY21	FY22	FY23	FY24E	FY25E
Share Capital	8	8	8	8	8
Reserves & Surplus	315	334	121	127	142
Networth	323	343	129	135	150
Total Debt	72	28	118	118	118
Def. tax liab (net)	(11)	-	-	-	-
Current liabilities	49	54	71	60	67
Provisions	1	0	0	0	0
Long term liabilities	12	22	36	36	36
Total capital	447	447	355	350	372
Netblock	164	172	175	167	167
Cash	94	58	14	21	41
Inventory	14	20	19	18	20
Debtors	4	7	4	5	6
Other current assets	134	156	112	107	108
Total current assets	246	240	148	151	174
Add: Capital work-in-process	19	21	22	22	22
Total fixed assets	184	192	198	190	189
Other assets	17	14	9	9	9
Investments	-	-	-	-	-
Miscellaneous expenditure	-	-	-	-	-
Total assets	447	447	355	350	372

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs bn)	FY21	FY22	FY23	FY24E	FY25E
PBT	106	141	153	109	133
Add: Depreciation	25	29	33	36	39
Add: Interest	(13)	(7)	(8)	(4)	(5)
Less: Taxes Paid	(18)	(24)	(31)	(27)	(33)
Add: Other Adjustments	(2)	(0)	(0)	-	-
Less: WC changes	6	(12)	6	(7)	3
Total Operating cash flow	106	127	151	106	137
OCF w/o WC changes	99	139	146	113	134
Capital Expenditure	(25)	(30)	(36)	(28)	(38)
Interest & dividend received	15	9	14	-	-
Misc expenditure not written off	1	0	(1)	-	-
Total investing cash flow	(24)	8	66	(28)	(38)
share issuances	-	-	-	-	-
Dividend	(160)	(76)	(319)	(76)	(85)
Debt raised	65	(43)	90	-	-
Investments	(15)	29	88	-	-
Misc items	1	0	(1)	-	-
Total financing cash flow	(97)	(123)	(232)	(76)	(85)
Net cash flow	(16)	13	(15)	2	15
Opening cash	19	3	16	1	3
Closing cash	3	16	1	3	17

Source: Company, Systematix Institutional Research

Ratios

YE: Mar (%)	FY21	FY22	FY23	FY24E	FY25E
YoY growth in Revenue	21.9	30.1	15.8	(11.7)	11.3
YoY growth in EBITDA	31.9	39.0	7.9	-23.6	19.5
YoY growth in NI	17.3	21.2	8.7	-22.3	22.3
Effective Tax rate	24.5	31.7	31.2	25.0	25.0
EBITDA Margin	51.6	55.1	51.3	44.4	47.7
PAT Margin	35.3	32.9	30.8	27.1	29.8
P/E (x)	14.8	11.0	10.9	15.9	13.0
EV/EBITDA (x)	10.8	7.8	7.2	9.4	7.9
P/B (x)	4.2	3.8	10.0	9.6	8.6
RoE (%)	22.9%	29.4%	44.5%	61.8%	70.0%
RoCE (%)	0.3	0.4	0.6	0.4	0.5
Dividend Yield (%)	12.3	5.9	24.6	5.9	6.5
Debt/Equity (x)	(0.1)	(0.1)	0.8	0.7	0.5

Source: Company, Systematix Institutional Research

Institutional Equities Team

Nikhil Khandelwal	Managing Director	+91-22-6704 8001	nikhil@systematixgroup.in
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Equity Research

Analysts	Industry Sectors	Desk-Phone	E-mail
Dhananjay Sinha	Co Head of Equities & Head of Research - Strategy & Economics	+91-22-6704 8095	dhananjaysinha@systematixgroup.in
Ashish Poddar	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8039	ashishpoddar@systematixgroup.in
Himanshu Nayyar	Consumer Staples & Discretionary	+91-22-6704 8079	himanshunayyar@systematixgroup.in
Manjith Nair	Banking, Insurance	+91-22-6704 8065	manjithnair@systematixgroup.in
Pradeep Agrawal	NBFCs & Diversified Financials	+91-22-6704 8024	pradeepagrawal@systematixgroup.in
Pratik Tholiya	Specialty & Agro Chem, Fertilisers, Sugar, Textiles and Select Midcaps	+91-22-6704 8028	pratiktholiya@systematixgroup.in
Sameer Pardikar	IT & ITES	+91-22-6704 8041	sameerpardikar@systematixgroup.in
Sudeep Anand	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8085	sudeepanand@systematixgroup.in
Vishal Manchanda	Pharmaceuticals and Healthcare	+91-22-6704 8064	vishalmanchanda@systematixgroup.in
Chetan Mahadik	Consumer Staples & Discretionary	+91-22-6704 8091	chetanmahadik@systematixgroup.in
Devanshi Kamdar	IT & ITES	+91-22-6704 8098	devanshikamdar@systematixgroup.in
Jennisa Popat	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8066	jennisapopat@systematixgroup.in
Kalash Jain	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8038	kalashjain@systematixgroup.in
Nirali Chheda	Banking, Insurance	+91-22-6704 8019	niralichheda@systematixgroup.in
Pashmi Chheda	Banking, Insurance	+91-22-6704 8063	pashmichheda@systematixgroup.in
Pranay Shah	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8017	pranayshah@systematixgroup.in
Pratik Oza	Midcaps	+91-22-6704 8036	pratikoza@systematixgroup.in
Pravin Mule	NBFCs & Diversified Financials	+91-22-6704 8034	pravinmule@systematixgroup.in
Prathmesh Kamath	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8022	prathmeshkamath@systematixgroup.in
Purvi Mundhra	Macro-Strategy	+91-22-6704 8078	purvimundhra@systematixgroup.in
Rajesh Mudaliar	Consumer Staples & Discretionary	+91-22-6704 8084	rajeshmudaliar@systematixgroup.in
Ronak Dhruv	NBFCs & Diversified Financials	+91-22-6704 8045	ronakdhruv@systematixgroup.in
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@systematixgroup.in
Vivek Mane	Pharmaceuticals and Healthcare	+91-22-6704 8046	vivekmane@systematixgroup.in
Yogeeta Rathod	Midcaps	+91-22-6704 8081	yogeetarathod@systematixgroup.in

Equity Sales & Trading

Name		Desk-Phone	E-mail
Vipul Sanghvi	Co Head of Equities & Head of Sales	+91-22-6704 8062	vipulsanghvi@systematixgroup.in
Jignesh Desai	Sales	+91-22-6704 8068	jigneshdesai@systematixgroup.in
Sidharth Agrawal	Sales	+91-22-6704 8090	sidharthagrawal@systematixgroup.in
Rahul Khandelwal	Sales	+91-22-6704 8003	rahul@systematixgroup.in
Chintan Shah	Sales	+91-22-6704 8061	chintanshah@systematixgroup.in
Pawan Sharma	Director and Head - Sales Trading	+91-22-6704 8067	pawansharma@systematixgroup.in
Mukesh Chaturvedi	Vice President and Co Head - Sales Trading	+91-22-6704 8074	mukeshchaturvedi@systematixgroup.in
Vinod Bhuwad	Sales Trading	+91-22-6704 8051	vinodbhuwad@systematixgroup.in
Rashmi Solanki	Sales Trading	+91-22-6704 8097	rashmisolanki@systematixgroup.in
Karan Damani	Sales Trading	+91-22-6704 8053	karandamani@systematixgroup.in
Vipul Chheda	Dealer	+91-22-6704 8087	vipulchheda@systematixgroup.in
Paras Shah	Dealer	+91-22-6704 8047	parasshah@systematixgroup.in
Rahul Singh	Dealer	+91-22-6704 8054	rahulsingh@systematixgroup.in

Corporate Access

Mrunal Pawar	Vice President & Head Corporate Access	+91-22-6704 8088	mrunalpawar@systematixgroup.in
Darsha Hiwrale	Associate Corporate Access	+91-22-6704 8083	darshahiwrale@systematixgroup.in

Production

Madhu Narayanan	Editor	+91-22-6704 8071	madhunarayanan@systematixgroup.in
Mrunali Pagdhare	Production	+91-22-6704 8057	mrunalip@systematixgroup.in
Vijayendra Achrekar	Production	+91-22-6704 8089	vijayendraachrekar@systematixgroup.in

Operations

Sachin Malusare	Vice President	+91-22-6704 8055	sachinmalusare@systematixgroup.in
Jignesh Mistry	Manager	+91-22-6704 8049	jigneshmistry@systematixgroup.in
Sushant Chavan	Manager	+91-22-6704 8056	sushantchavan@systematixgroup.in

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I, **Shweta Dikshit**, hereby certify that (1) views expressed in this research report accurately reflect my/our personal views about any or all of the subject securities or issuers referred to in this research report, (2) no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by **Systematix Shares and Stocks (India) Limited (SSSIL)** or its group/associate companies, (3) reasonable care is taken to achieve and maintain independence and objectivity in making any recommendations.

Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

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STOCK RATINGS

BUY (B): The stock's total return is expected to exceed 15% over the next 12 months.

HOLD (H): The stock's total return is expected to be within -15% to +15% over the next 12 months.

SELL (S): The stock's total return is expected to give negative returns of more than 15% over the next 12 months.

NOT RATED (NR): The analyst has no recommendation on the stock under review.

INDUSTRY VIEWS

ATTRACTIVE (AT): Fundamentals/valuations of the sector are expected to be attractive over the next 12-18 months.

NEUTRAL (NL): Fundamentals/valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.

CAUTIOUS (CS): Fundamentals/valuations of the sector are expected to deteriorate over the next 12-18 months.

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Systematix Shares and Stocks (India) Limited:

Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051

Tel no. 022-66198000/40358000 Fax no. 022-66198029/40358029 Email id contactus@systematixgroup.in. Visit us at: www.systematixgroup.in

Details of Compliance officer: Ms Nipa Savla, Compliance officer Tel no. 022-66198092/4035808092 Email id compliance@systematixgroup.in

Details of Email id grievance redressal cell : grievance@systematixgroup.in

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