

Hindustan Zinc

20 January 2024

Earnings in-line; cost efficiency helps improve margins

RESULT UPDATE

Sector: Metals **Rating:** HOLD
CMP: Rs 315 **Target Price:** Rs 284

Stock Info

Sensex/Nifty	71,683/ 21,622
Bloomberg	HZ IN
Equity shares (mn)	4225
52-wk High/Low	Rs 383/290
Face value	Rs 2
M-Cap	Rs 1,331bn/USD 16.2bn

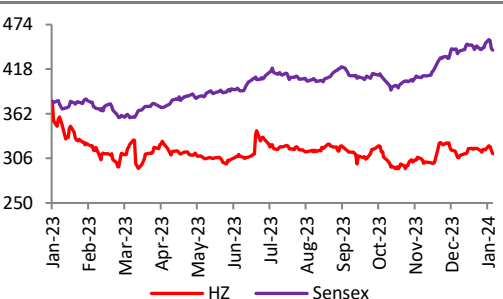
Financial Snapshot (Rs bn)

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 (%)

	Dec'23	Sep'23	Jun'23
Promoter	64.9	64.9	64.9
-Pledged	64.5	64.5	64.5
FII	0.7	0.8	0.8
DII	3.0	3.0	3.0
Others	31.4	31.4	31.3

Stock Performance (1-year)



Hindustan Zinc (HZ)'s 3QFY24 revenue of Rs 73.1bn (-9.8%/+7.6% YoY/QoQ) was marginally below our estimate. EBITDA of Rs 35.2bn -5.0%/+12.2% YoY/QoQ was in line with our estimate. EBITDA margin during the quarter improved by 269bps/239bps YoY/QoQ to 49.8%. At 203kt, zinc volumes were lower by 3.3% YoY but increased 9.7% QoQ largely due to better grades. Zinc/lead prices averaged at USD 2,498/t (-16.8%/+2.9% YoY/QoQ) and USD 2,123/t (-1.5%/-2.2% YoY/QoQ), respectively, during the quarter. Silver prices averaged USD 23.2/Oz and were up 7.8% YoY but fell 1.4% QoQ. Before royalty, zinc's cost of production (CoP) was USD 1,095/t (improvement of 15.3%/3.7% YoY/QoQ), within the annual guidance of USD 1,125-1,175/t, on account of higher volume, softened coal prices and linkage availability, and better grades. For 9MFY24, Zinc CoP ex royalty was USD 1,142/t. By 9MFY24, HZ has achieved 75% of its annual mined metal guidance (zinc + Lead metal) of 1.05-1.075mt for FY24, and ~76% of its silver production guidance. We have factored in mined metal production at 1.06mt (+2.7% YoY) and silver production at 744t (+4.1% YoY) for FY24. We keep our estimates unchanged and value HZL at 7.5x FY25E EBITDA and revise the TP marginally lower to Rs 284/share (Rs 287/share earlier) accounting for a lower cash level as of December '23. **MAINTAIN HOLD.**

Key takeaways from 3QFY24 earnings call

- **Operational efficiency enables lower CoP:** HZ continues to work on mining efficiency to ensure better ore grades leading to higher refined metal output at a lower cost of production; a key positive in the low LME price environment. Zinc CoP improved sequentially and is expected to further improve in the fourth quarter, an operationally strong quarter. Zinc CoP is expected to be near the lower level of the annual guidance of USD 1,125/t-USD 1,175/t. Mine development during the quarter was 13kms and the average realised grade was 7.36%.
- **Project updates:** The fumer and alloy plants are under operation and full ramp-up is expected to be completed in the following quarter; this would enable better metal recovery ratios and increase the proportion of value-added products from the current 18-20% level to ~25%. The HZ alloy plant will add 30ktpa value-added capacity to HZ's product portfolio. 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.

Global scenario: Zinc and lead LME price fell by 16.8%/1.5% YoY to USD2,498/t and USD 2,123/t, respectively, in 3QFY24 due to a persistent oversupply situation globally. Previously, the International Lead and Zinc Study Group (ILZSG) 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. In the first 10 months of 2023, zinc supply outstripped demand by 295,000t. The continued downfall in zinc prices caused further temporary smelter closures, like seen in 2022 amidst the European energy crises. While mine and smelter closures are naturally expected to constrain supply and support prices, it remains to be seen whether demand recovers enough to affect the prices. Lead prices also dropped by nearly 14% from the start of 2023 to touch their lowest point of the year at USD 1,973/t on December 7th. As per the latest ILZSG report, the global supply of lead exceeded demand by 41,000t in the first 10 months of 2023. Lead mine production rose by 1.5% while consumption rose merely 0.3% over this period. The oversupply situation in the lead and zinc market is likely to persist and keep prices in check in the near term. Several geopolitical factors also add to the uncertainty around the global demand outlook.

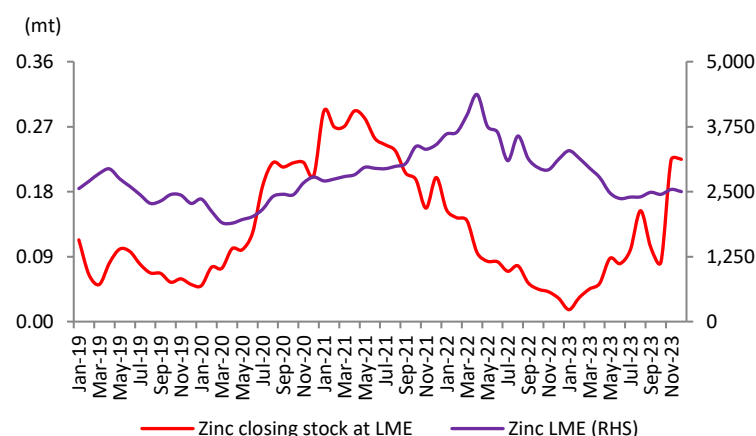
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Exhibit 1: Quarterly snapshot

(Rs bn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Net revenues	79	83	71	66	71
YoY change (%)					(10.2)
QoQ change (%)					6.8
Expenditure	42	43	39	37	38
EBITDA	37.1	40.3	33.5	31.4	35.2
YoY change (%)					(5.0)
QoQ change (%)					12.2
EBITDA Margin (%)	47.1	48.6	47.1	47.4	49.8
Net earnings	22	24	20	17	20
YoY change (%)					(5.9)
QoQ change (%)					17.3

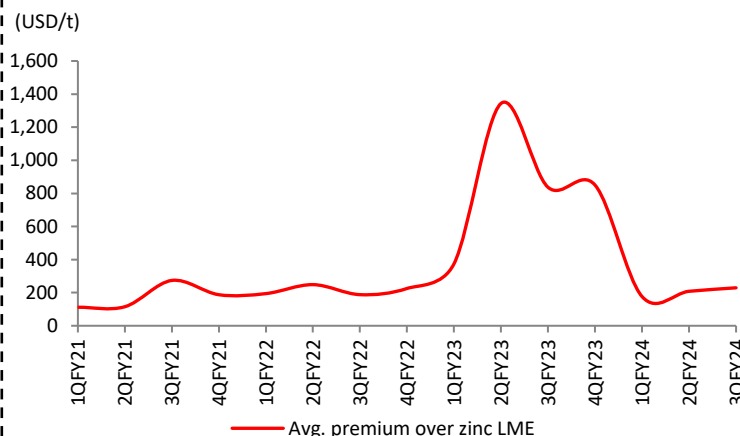
Source: Systematix Institutional Research

Exhibit 2: Zinc prices lower as LME inventory rises in the last few months



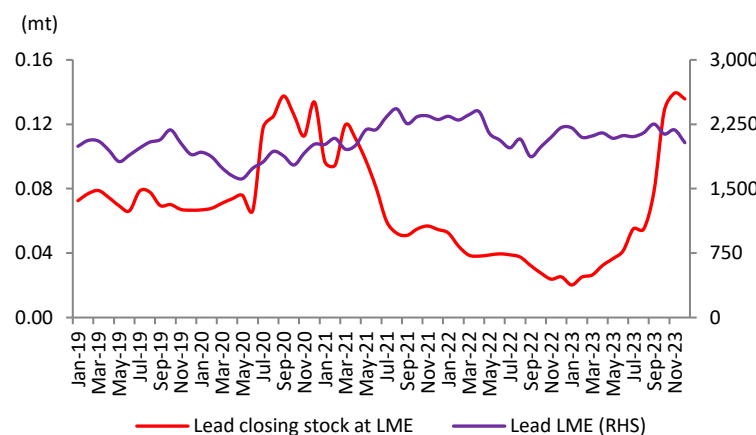
Source: Company, Systematix Institutional Research

Exhibit 3: Premium over average LME zinc price improves marginally in 3QFY24



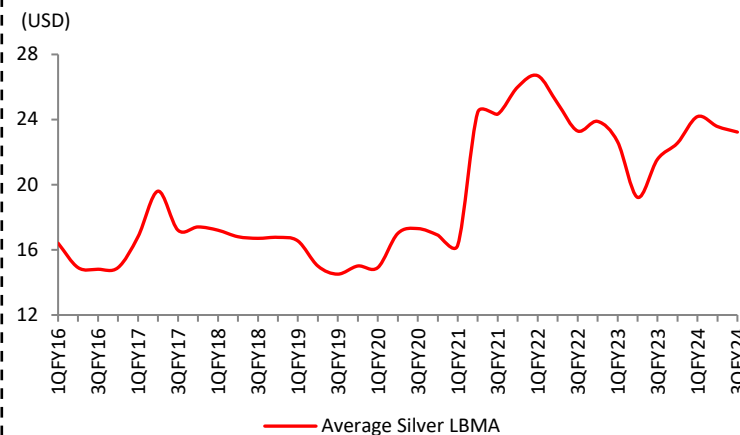
Source: Company, Systematix Institutional Research

Exhibit 4: Lead prices drop during the quarter on high inventory levels (USD/t)

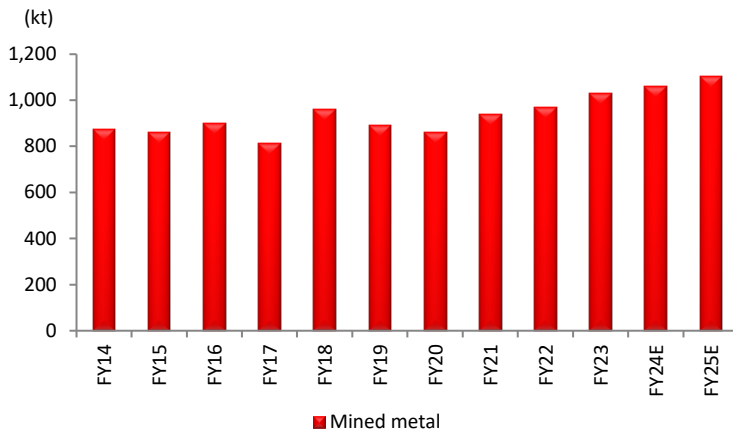


Source: Company, Systematix Institutional Research

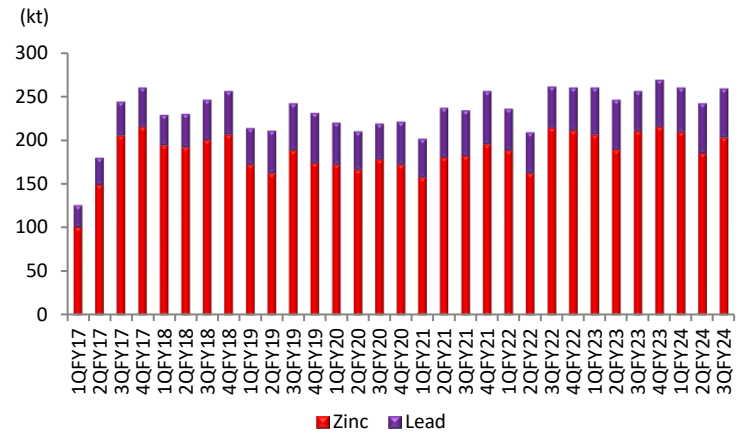
Exhibit 5: Silver prices fall in 3QFY24 but higher YoY (USD/Oz)



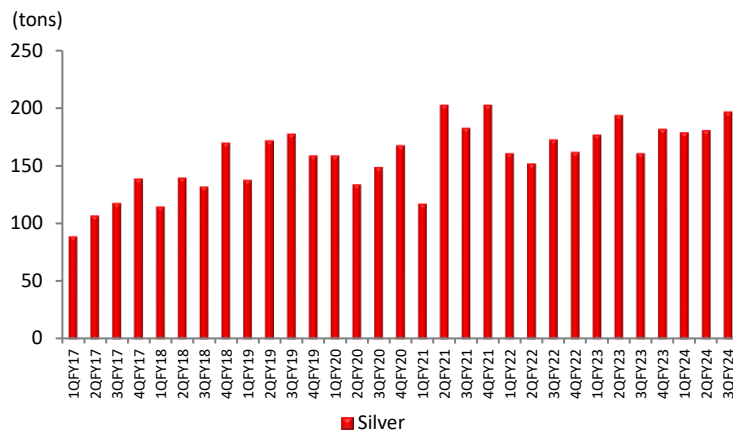
Source: Company, Systematix Institutional Research

Exhibit 6: Mined metal output to remain steady

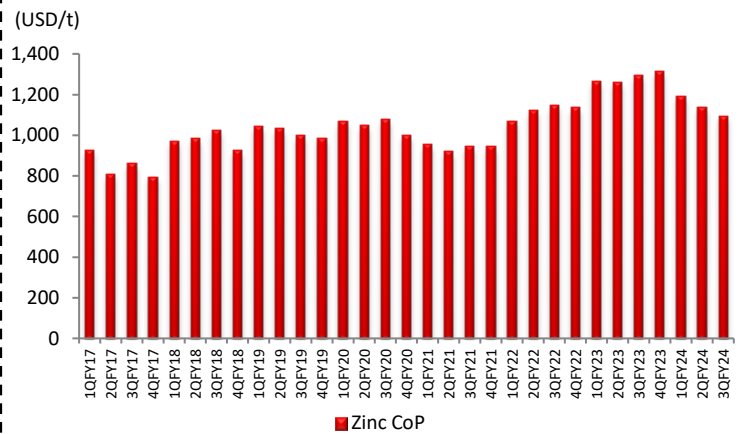
Source: Company, Systematix Institutional Research

Exhibit 7: Quarterly zinc and lead volumes

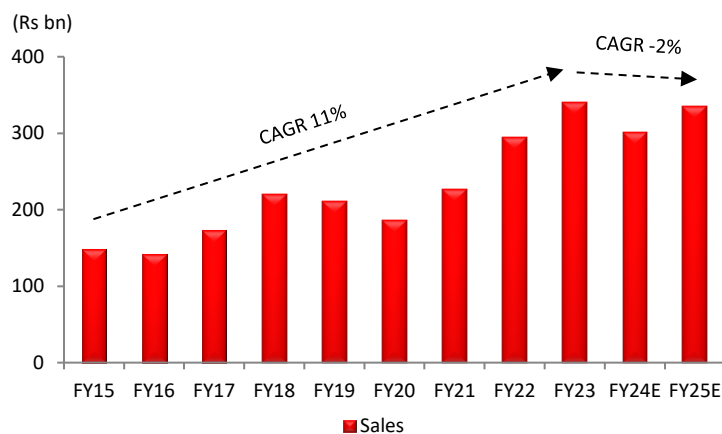
Source: Company, Systematix Institutional Research

Exhibit 8: Silver volumes rise sequentially

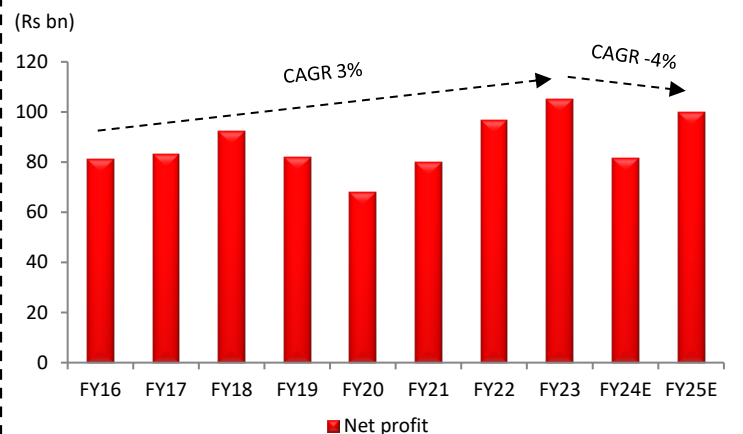
Source: Company, Systematix Institutional Research

Exhibit 9: Zinc's CoP continues downward trend

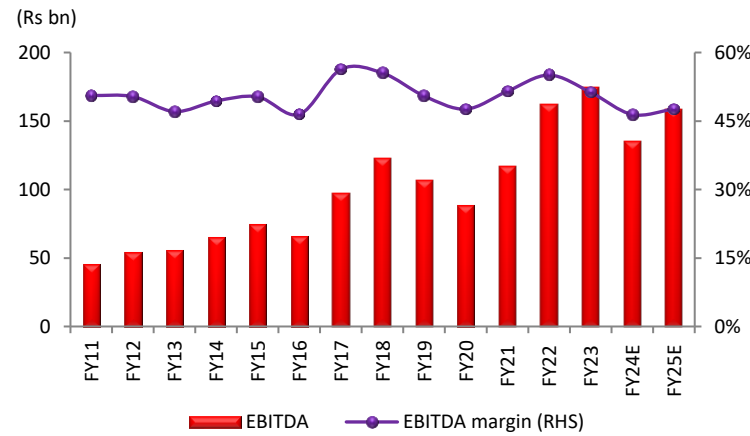
Source: Company, Systematix Institutional Research

Exhibit 10: Revenue to marginally decline over FY23-FY24E

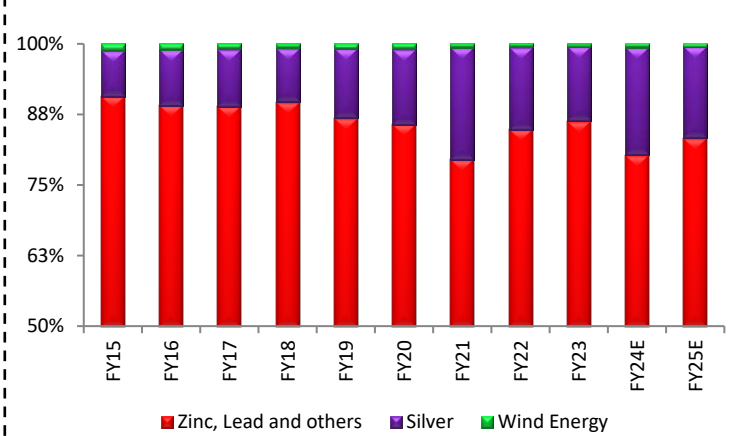
Source: Company, Systematix Institutional Research

Exhibit 11: PAT to decline higher on lower metal prices

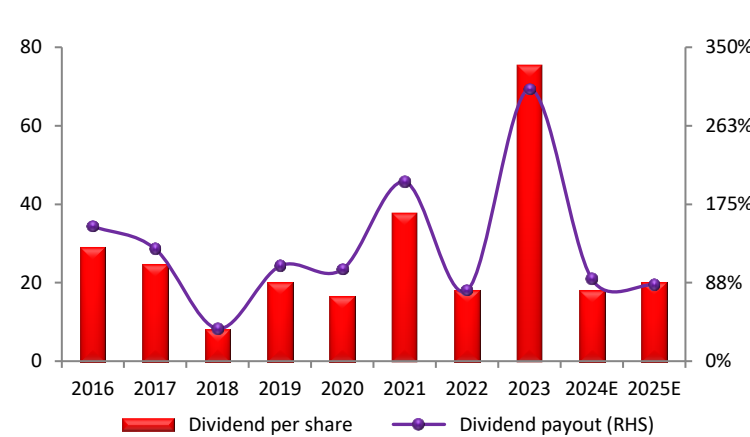
Source: Company, Systematix Institutional Research

Exhibit 12: EBITDA and EBITDA margin trend

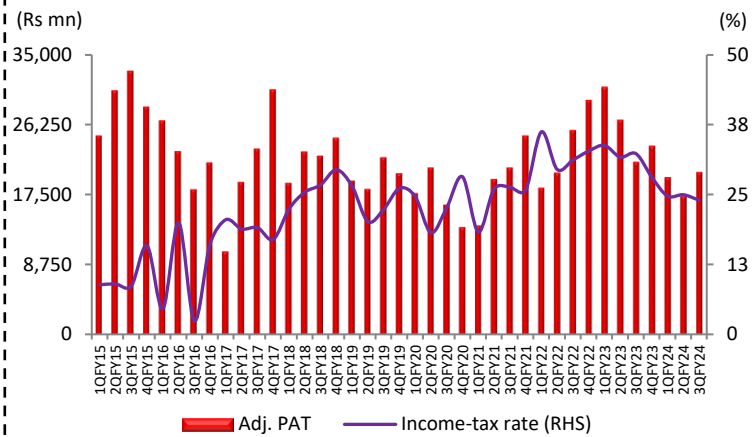
Source: Company, Systematix Institutional Research

Exhibit 13: Silver shows consistent growth in revenue share

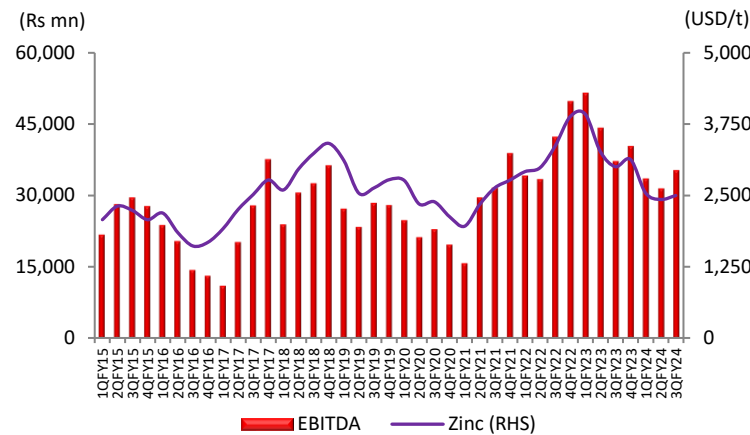
Source: Company, Systematix Institutional Research

Exhibit 14: Dividend payout to stabilise in FY24/FY25

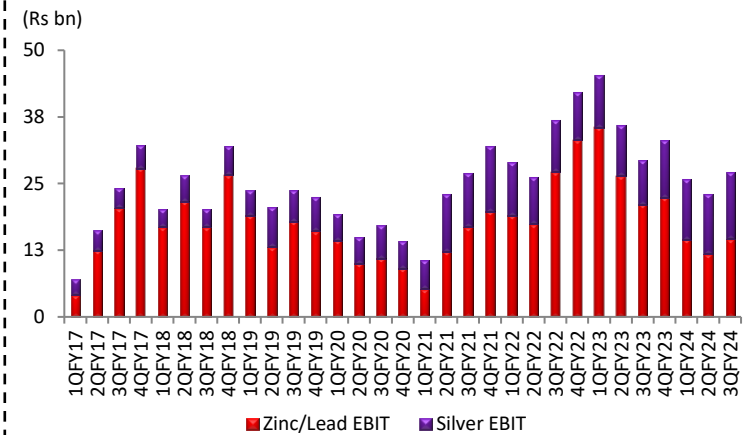
Source: Company, Systematix Institutional Research

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

Valuation and view

Exhibit 18: Valued on EV/EBITDA (FY25E)

	Discount	EBITDA (Rs bn)	Multiple (x)	Enterprise Value	
				(Rs bn)	(Rs/ share)
EBITDA		159	7.5	1,189	281
Less: Net debt		-	-	4	1
Add: CWIP				15	3
Equity value				1,200	284
Target price per share				284	

Source: Systematix Institutional Research

Exhibit 19: 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

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

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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.

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