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Q4FY21 result review
and earnings change

Metals

Target price: Rs280

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 5.6	↑ 7.1
EBITDA	↑ 8.9	↑ 11.5
PAT	↑ 10.0	↑ 13.6

Target price revision

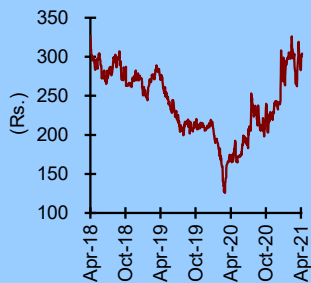
Rs280 from Rs257

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	64.9	64.2	64.9
Institutional investors	3.6	3.5	3.7
MFs and others	0.3	0.3	0.2
Insurance Cos.	2.1	2.1	2.3
FII	1.2	1.1	1.2
Others	31.5	32.3	31.4

Source: www.nseindia.com

Price chart



Hindustan Zinc

REDUCE

Maintained

Rs319

Set for next phase of growth

Hindustan Zinc (HZL) continues to prepare for its eventual leap towards 1.2mtpa and then 1.35mtpa of mined metal production. While, FY22 was expected to witness rampup in production to 1.2mtpa, second wave of Covid outbreak in India seems to have postponed the same. Management guided for a *conservative* 11.5% YoY mined metal production growth (mid-point). Similarly, silver production guidance has been stemmed down to 720te. The decline in guided range because of Covid is more than offset by commodity inflation, as can be seen in our FY22E earnings (up 10%). We maintain **REDUCE** given the rich valuations with a revised target price of Rs280/share (Rs257/share earlier).

- **Operational performance surprises.** Zinc sales volumes came in at ~195,000te (up 13% YoY, 7% QoQ, marginally higher than our estimate of 188,000te), lead sales volume came in at ~61,000 tonnes (up 27% YoY, and 15% QoQ) higher than our estimate of 55kte, while silver sales volume came in at ~203te (up 21% YoY, and 6% QoQ). Mined metal production was up 15% QoQ on higher ore production and better overall grades. FY21 MIC production was up 6% YoY to 972kte, despite 18 days of production lost, grade slippage and other workforce related restrictions. Full year cost of production (CoP) was US\$954/te, down 9% YoY. Management has guided for < US\$1000/te CoP for FY22.
- **FY22E production guidance moderated to factor in disruption on account of current pandemic.** Mined metal and refined metal production is expected to be at ~1025-1050kte. This compares to metal production of 930kte for FY21. Better lead production growth, up 18%YoY in FY21, and better silver grades at SK mine allowed 16% YoY growth in silver production to 706te in FY21. Management has guided for 720te of silver production in FY22. The production guidance for FY22, is slightly below expectation. Perhaps on account of Covid induced disruption in Q1FY22.
- **Preparatory work for three major expansion projects underway.** Management highlighted ~ US\$100mn project capex for FY22. Preparations for engineering design for the Gujarat Smelter and the Fertiliser plant are underway. On completion of the same, the proposal will be presented to the board. Preparatory work is also underway to expand integrated smelting from 1.2 to 1.35mtpa. At current mining rate reserves and resources underpins metal production for more than 25 years. Expansion of mining plan would require EC approval. Proposal for integrated expansion will be presented to the *Board* by Q2/Q3FY22 and the majority of the capex spend will happen in FY23/24E
- **Maintain REDUCE.** We maintain **REDUCE** on HZL, with a revised target of Rs 280/share.

Market Cap	Rs1347bn/US\$18.1bn
Reuters/Bloomberg	HZNC.BO/HZ IN
Shares Outstanding (mn)	4,225.3
52-week Range (Rs)	326/165
Free Float (%)	35.1
FII (%)	1.2
Daily Volume (US\$'000)	6,674
Absolute Return 3m (%)	20.7
Absolute Return 12m (%)	132.0
Sensex Return 3m (%)	3.4
Sensex Return 12m (%)	55.8

Year to March	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	185,610	226,290	256,763	275,270
Net Income (Rs mn)	68,050	79,800	99,207	110,739
EPS (Rs)	16.1	18.9	23.5	26.2
% Chg YoY	(14.5)	17.3	24.3	11.6
P/E (x)	19.8	16.9	13.6	12.2
CEPS (Rs)	21.5	24.9	29.4	32.5
EV/E (x)	13.1	10.2	8.1	7.0
Dividend Yield (%)	5.2	6.7	5.2	5.2
RoCE (%)	21.7	27.6	37.3	42.1
RoE (%)	18.4	22.0	29.4	30.2

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Table 1: Q4FY21 earnings review*(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	% Chg YoY	Q3FY21	% Chg QoQ
Net Sales	69,470	43,910	58.2	60,330	15.2
Stock Adjustment	(950)	(1,000)		250	
Employee Expenses	1,700	1,140	49.1	1,890	(10.1)
Power costs	4,690	4,420	6.1	4,400	6.6
Mining Royalty expenses	8,930	6,070	47.1	7,300	22.3
Other expenses	1,635	1,364	19.9	1,380	18.5
Total expenditure	30,720	24,270	26.6	27,640	11.1
EBITDA	38,750	19,640	97.3	32,690	18.5
Other Income	2,950	4,700	(37.2)	4,500	(34.4)
PBIDT	41,700	24,340	71.3	37,190	12.1
Interest	1,310	160		1,350	(3.0)
PBDT	40,390	24,180	67.0	35,840	12.7
Depreciation	6,960	5,530	25.9	6,390	8.9
PBT	33,430	18,650	79.2	29,450	13.5
Tax	5,780	5,260	9.9	5,090	
PAT	24,810	13,390	85.3	22,000	12.8
Production data (te)					
Zinc	195,000	172,000	13.4	182,000	7.1
Lead	61,000	49,000	24.5	53,611	13.8
Silver	203	168	20.8	192	5.7
Integrated Silver	203	168	20.8	183	10.9
Wind Energy (mn units)	65	71	(8.5)	61	6.6

Source: Company data, I-Sec research

Table 2: Segmental data*(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	% Chg YoY	Q3FY21	% Chg QoQ
Revenue	69,470	45,783	51.7	60,330	15.2
Zinc	42,410	30,640	38.4	38,350	10.6
Lead	9,990	6,421	55.6	8,170	22.3
Silver	13,520	6,611	104.5	11,460	18.0
Wind energy	250	650	(61.5)	260	(3.8)
Other	3,300	1,460	126.0	2,090	57.9
EBIT	32,100	27,060	18.6	14,340	123.8
Zinc & lead	19,720	16,850	17.0	9,050	117.9
Silver	12,260	10,130	21.0	5,170	137.1
Wind energy	120	80	50.0	120	-
Margins (%)	46.2	59.1		23.8	
Zinc & lead	37.6	45.5		19.5	
Silver	90.7	153.2		45.1	
Wind energy	48.0	12.3		46.2	

Source: Company data, I-Sec research

Earnings change

Our earnings change reflects i) higher Zinc prices for FY22E ii) Adjusted silver volumes and iii) higher silver prices for FY22/23E.

Table 3: Earnings change table

(Rs mn)	New		Old		% Chg	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenues	256,763	275,270	243,170	256,960	5.6	7.1
EBITDA)	142,416	159,249	130,743	142,858	8.9	11.5
PAT	99,207	110,739	90,154	97,450	10.0	13.6

Source: Company data, I-Sec research

Valuation methodology and key risks

Maintain REDUCE with a revised target price of Rs280/share. We value HZL at 6x FY23E EV/E (implied FY23E P/B of 3.1x). Earlier, valuation of Rs257/share was at 2.54x FY23E P/B. Current valuations are quite rich given that at spot prices most zinc miners globally are making money and at spot prices RoE profile of Hind Zinc is ~30%.

Key risks

Key upside risks are commodity and silver prices. We have captured a lower-than-spot scenario in our estimates. Also higher than expected volume ramp up, better than expected cost performance despite an environment of commodity inflation are key upside risks to earnings. Any directional clarity towards government stake sale and purchase of the same by Vedanta can lead to higher valuation expectation for minority investors as well.

Key downside risks are i) lower than expected zinc and lead prices, ii) lower volumes and iii) higher costs.

Financial summary

Table 4: Profit and loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Income (Sales)	185,610	226,290	256,763	275,270
Operating Expenses	97,140	109,570	114,346	116,020
EBITDA	88,470	116,720	142,416	159,249
% margins	47.7	51.6	55.5	57.9
Depreciation & Amortization	22,790	25,310	25,003	26,700
Gross Interest	1,120	3,860	2,000	2,000
Other Income	19,340	18,190	16,863	17,103
Recurring PBT	83,900	105,740	132,276	147,652
Add: Extra ordinaries	-	-	-	-
Less: Taxes	15,850	25,940	33,069	36,913
Net Income (Reported)	68,050	79,800	99,207	110,739
Recurring Net Income	68,050	79,800	99,207	110,739

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	44,750	115,700	92,175	123,463
of which cash & cash eqv.	19,180	93,760	68,671	99,760
Total Current Liabilities	34,980	69,330	74,872	75,932
Net Current Assets	9,770	46,370	17,303	47,531
Investments	203,290	129,570	129,570	129,570
Strategic/Group	-	-	-	-
Other Marketable	203,290	129,570	129,570	129,570
Net Fixed Assets	189,580	187,300	181,047	177,897
Capital Work in progress	24,890	19,220	19,190	19,160
Total Assets	416,540	377,360	342,040	369,118
Liabilities				
Borrowings	31,660	64,810	-	-
Deferred Tax Liability	(18,220)	(10,580)	(10,580)	(10,580)
Equity Share Capital	8,451	8,451	8,451	8,451
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus	394,650	314,680	344,170	371,248
Net Worth	403,101	323,131	352,620	379,698
Total Liabilities	416,541	377,361	342,040	369,118

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	77,380	99,290	107,347	120,337
Working Capital Changes	(10,950)	6,380	3,978	861
Capital Commitments	(36,180)	(24,270)	(18,750)	(23,550)
Free Cashflow	30,250	81,400	92,575	97,647
Cashflow from Investing Activities	9,700	(80)	16,863	17,103
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc. (Dec) in Borrowings	(19,240)	62,800	(64,810)	-
Dividend paid	-	(159,720)	(69,717)	(83,661)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank balances	18,970	(15,650)	(25,089)	31,089

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (Rs)				
EPS(Basic Recurring)	16.1	18.9	23.5	26.2
Diluted Recurring EPS	16.1	18.9	23.5	26.2
Recurring Cash EPS	21.5	24.9	29.4	32.5
Dividend per share (DPS)	16.5	21.3	16.5	16.5
Book Value per share (BV)	95	76	83	90
Growth Ratios (%)				
Operating Income	(12.1)	21.9	13.5	7.2
EBITDA	(17.1)	31.9	22.0	11.8
Recurring Net Income	(14.5)	17.3	24.3	11.6
Diluted Recurring EPS	(14.5)	17.3	24.3	11.6
Diluted Recurring CEPS	(7.7)	15.7	18.2	10.7
Valuation Ratios (x)				
P/E	19.8	16.9	13.6	12.2
P/CEPS	14.8	12.8	10.9	9.8
P/BV	3.3	4.2	3.8	3.5
EV / EBITDA	13.1	10.2	8.1	7.0
EV / Operating Income	6.2	5.3	4.5	4.1
EV / Operating FCF	17.4	11.3	10.3	9.2
Operating Ratios (%)				
Raw Material/Sales	6.5	7.1	6.7	6.2
Other Income / PBT	23.1	17.2	12.7	11.6
Effective Tax Rate	18.9	24.5	25.0	25.0
NWC / Total Assets	(2.3)	(12.6)	(15.0)	(14.1)
Inventory Turnover (days)	40.4	50.9	35.6	37.7
Receivables (days)	3.8	3.4	2.9	2.7
Payables (days)	122.7	222.6	231.0	231.0
D/E Ratio (x)	0.0	0.2	(0.0)	(0.0)
Return/Profitability Ratios (%)				
Recurring Net Income Margins	33.2	32.6	36.3	37.9
RoCE	21.7	27.6	37.3	42.1
RoNW	18.4	22.0	29.4	30.2
Dividend Payout Ratio	102.5	112.8	70.3	63.0
Dividend Yield	5.2	6.7	5.2	5.2
EBITDA Margins	47.7	51.6	55.5	57.9

Source: Company data, I-Sec research

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