



## Hindustan Zinc

BSE SENSEX  
18,978S&P CNX  
5,691

Rs1,339

Buy

Bloomberg HZIN  
Equity Shares (m) 422.5  
52-Week Range (Rs) 1,438/900  
1,6,12 Rel. Perf. (%) 14/30/-3  
M.Cap. (Rs b) 565.8  
M.Cap. (US\$ b) 12.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/10A	80,170	40,414	95.6	48.2	14.0	3.1	22.3	22.9	5.6	9.6
3/11E	92,797	43,688	103.4	8.1	13.0	2.6	19.7	20.1	4.5	8.1
3/12E	104,107	53,669	127.0	22.8	10.5	2.1	19.8	20.2	3.5	5.9
3/13E	109,457	58,781	139.1	9.5	9.6	1.7	18.0	17.7	2.8	4.7

Consolidated

- Hindustan Zinc's 3QFY11 PAT grew 12.3% YoY to Rs12.9b, higher than our estimate of Rs12b due to sale of surplus zinc concentrate. EBITDA increased 9% YoY to Rs15.1b.
- Net sales increased 19.5% QoQ to Rs26.3b, driven by higher realization. Production of refined zinc grew 1% QoQ to 178k tons while lead and silver production declined due to maintenance shutdown at the Ausmelt and ISF smelters. The company produced 12,521 tons of lead and 32,777 kg of silver. Its recently commissioned Dariba smelter produced 46,500 tons during the quarter, thereby achieving capacity utilization of 89%.
- Mine production grew 9% QoQ to 222k tons on account of recently commissioned stream-IV concentrator at Rampura Agucha. The company sold 17,678 tons of zinc concentrate during the quarter. Average zinc and lead LME prices increased 14% and 16% QoQ respectively, which boosted revenues.
- The Sindesar Kurd mine along with 1.5mtpa has also commenced trial runs in the end of December 2010. Silver production capacity expansion to 500 tons is expected by FY13.
- We remain positive on the stock, given strong volume growth of zinc metal and sharper growth in lead and silver production over the next few years. The stock trades at an EV of 5.9x FY12E EBITDA and at 10.5x FY12E EPS assuming zinc and lead prices of US\$2,200/ton. At present, zinc prices are ~US\$2,450/ton. For every US\$100/ton change in LME prices, the EPS upside is 5-6%. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Zn & Pb (000 tons)	155	152	167	169	179	191	191	209	643	769
Change (YoY %)	6.4	13.5	0.5	1.5	15.6	25.3	14.0	23.9	5.0	19.7
<b>Net Sales</b>	<b>15,122</b>	<b>18,183</b>	<b>22,491</b>	<b>25,449</b>	<b>19,734</b>	<b>22,010</b>	<b>26,302</b>	<b>24,752</b>	<b>80,170</b>	<b>92,797</b>
Change (YoY %)	-8.0	1.6	110.4	101.5	30.5	21.0	16.9	-2.7	41.1	15.8
<b>EBITDA</b>	<b>7,679</b>	<b>10,755</b>	<b>13,861</b>	<b>15,482</b>	<b>10,218</b>	<b>11,253</b>	<b>15,073</b>	<b>14,382</b>	<b>46,701</b>	<b>50,925</b>
As % of Net Sales	50.8	59.1	61.6	60.8	51.8	51.1	57.3	58.1	58.3	54.9
Interest	32	54	77	277	66	-5	1	49	439	111
Depreciation	748	771	817	1,006	1,123	1,158	1,195	1,182	3,343	4,658
Other Income	1,946	1,537	1,319	1,345	1,584	1,840	2,071	2,129	7,222	7,625
<b>PBT (before EO item)</b>	<b>8,845</b>	<b>11,467</b>	<b>14,286</b>	<b>15,543</b>	<b>10,614</b>	<b>11,940</b>	<b>15,947</b>	<b>15,280</b>	<b>50,141</b>	<b>53,781</b>
Extra-ordinary Income	0	0	0	0	0	-212	0	0	0	-212
<b>PBT (after EO item)</b>	<b>8,845</b>	<b>11,467</b>	<b>14,286</b>	<b>15,543</b>	<b>10,614</b>	<b>11,728</b>	<b>15,947</b>	<b>15,280</b>	<b>50,141</b>	<b>53,569</b>
Total Tax	1,657	2,118	2,799	3,153	1,705	2,241	3,051	3,056	9,727	10,053
% Tax	18.7	18.5	19.6	20.3	16.1	19.1	19.1	20.0	19.4	18.8
<b>Reported PAT</b>	<b>7,188</b>	<b>9,349</b>	<b>11,487</b>	<b>12,390</b>	<b>8,909</b>	<b>9,487</b>	<b>12,896</b>	<b>12,224</b>	<b>40,414</b>	<b>43,516</b>
<b>Adjusted PAT</b>	<b>7,188</b>	<b>9,349</b>	<b>11,487</b>	<b>12,390</b>	<b>8,909</b>	<b>9,658</b>	<b>12,896</b>	<b>12,224</b>	<b>40,414</b>	<b>43,688</b>
Change (YoY %)	-15.2	-2.6	211.4	124.7	23.9	3.3	12.3	-1.3	48.2	8.1
Avg LME Zinc (USD/T)	1,509	1,780	2,241	2,311	2,052	2,043	2,330	2,200	1,960	2,156
Avg LME Lead (USD/T)	1,520	1,942	2,313	2,254	1,972	2,065	2,398	2,200	2,007	2,159
Fixed assets		63,226		72,771		76,955		81,637	72,771	81,637
Cash etc (net of debt)		102,014		118,162		123,528	130,920	150,873	118,162	150,873
Net Working Capital		1,523		-2,581		7,593		-2,455	-2,581	-2,455

E: MOSL Estimates

Hindustan Zinc's 3QFY11 PAT grew 12.3% YoY to Rs12.9b, higher than our estimate of Rs12b due to sale of surplus zinc concentrate. EBITDA increased 9% YoY to Rs15.1b.

### Mined metal production up 9% QoQ; silver realization up 34% QoQ at Rs39,398/kg

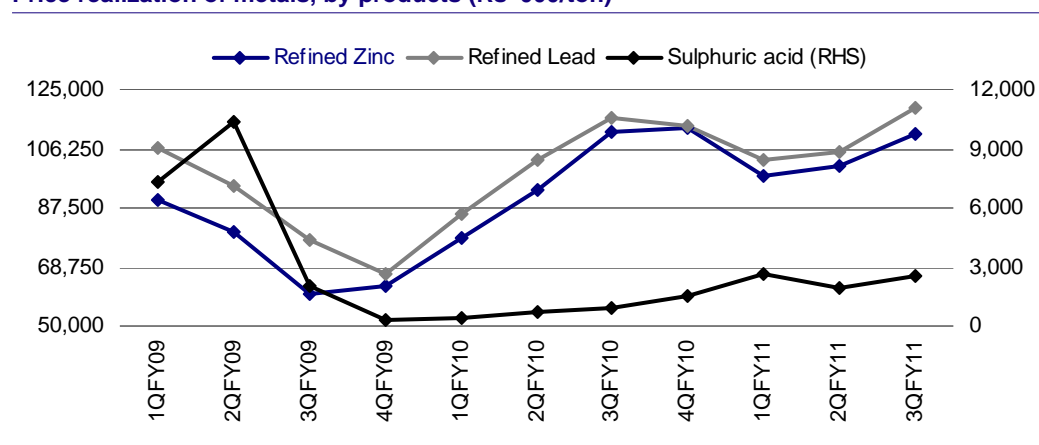
- Net sales increased 19.5% QoQ to Rs26.3b, driven by higher realization and sale of surplus concentrate.
- Production of refined zinc grew 1% QoQ to 178k tons while lead and silver production declined due to maintenance shutdown at the Ausmelt and ISF smelters. The company produced 12,521 tons of lead and 32,777 kg of silver. Its recently commissioned Dariba smelter produced 46,500 tons during the quarter, achieving capacity utilization of 89%.
- Mine production grew 9% QoQ to 222k tons on account of recently commissioned stream-IV concentrator at Rampura Agucha. The company sold 17,678 tons of zinc concentrate during the quarter. Average zinc and lead LME prices increased 14% and 16% QoQ respectively, which boosted revenues.

#### Production volumes (tonnes)

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
<b>Total Mine Production</b>	<b>182,842</b>	<b>192,517</b>	<b>199,728</b>	<b>193,533</b>	<b>181,930</b>	<b>204,836</b>	<b>222,249</b>
Zinc (Mine)	162,241	172,794	176,929	170,808	164,063	185,822	198,380
Lead (Mine)	20,601	19,723	22,799	22,724	17,868	19,013	23,869
Refined Zinc	139,315	140,661	148,126	150,309	164,519	176,239	178,254
Refined Lead	15,218	11,565	19,191	18,345	14,144	14,521	12,521
Silver (kg)	29,527	30,324	35,633	43,066	37,176	35,341	32,777
Sulphuric Acid	248,616	247,438	255,054	284,481	264,729	312,070	287,116
Cadmium	90	114	140	143	134	135	117

Source: Company/MOSL

#### Price realization of metals, by products (Rs '000/ton)



Source: Company/MOSL

**EBITDA up 34% QoQ; cost of production (without royalty) at US\$792/ton**

EBITDA increased 34% QoQ to Rs15.1b. The net zinc metal cost without royalty increased 5% YoY to US\$792/ton. The increase is on account of increase in raw material costs and higher stripping costs at mines.

**SK mine commenced production - will drive silver volumes in FY12; maintain Buy**

- Although the 100ktpa lead smelter is delayed again by a quarter to 4QFY11, the second unit of 80MW (in 160MW CPP) has commenced trial runs in 3QFY11.
- The Sindesar Kurd (SK) mine along with 1.5mtpa has also commenced trial runs in the end of December 2010. Silver production capacity expansion to 500 tons is expected by FY13.
- The company has recently announced addition of 150MW to its existing wind power generation capacity of 123.2MW, with an additional capex of Rs8.65b in two phases. First phase of 50MW is planned to commission by 1QFY12 while the rest 100MW will be commissioned by 3QFY12.
- Cash and equivalents increased by Rs7.4b QoQ to Rs131b; of this, Rs6.6b is invested in debt mutual funds.
- The company has announced a bonus of 1:1 and stock split of 1:5.
- We remain positive on the stock due to strong volume growth of zinc metal and sharper growth in lead and silver production over the next few years. The stock trades at an EV of 5.9x FY12E EBITDA and 10.5x FY12E EPS assuming zinc and lead prices of US\$2,200/ton. At present, zinc prices are ~US\$2,450/ton. For every US\$100/ton change in LME prices, the EPS upside is 5-6%. Maintain **Buy**.

## Hindustan Zinc: an investment profile

### Company description

Hindustan Zinc is a fully integrated zinc producer, with one of the best mining assets in the world. It has steadily increased its reserves and production through regular investment in exploration activities and smelting capacity addition. HZL's captive mines of zinc and lead ore are located in the state of Rajasthan, with total reserves of 299m tons - equivalent to 34m tons of refined zinc and lead MIC (metal in concentrate). Its captive mines and thermal power plants give the company a significant cost advantage, making it one of the lowest cost producers of zinc in the world. Sterlite Industries has 64.9% stake in Hindustan Zinc, while 29.5% is owned by the Government of India.

### Key investment arguments

- HZL commissioned its 210ktpa zinc smelter at Dariba in FY10, thus expanding total Zinc-Lead smelting capacity from 750ktpa to 964ktpa. Post completion of its ongoing 100ktpa lead smelter expansion by 4QFY11, HZL will be the world's largest integrated zinc-lead producer with a total smelting capacity of 1.064 mtpa. This will drive strong volume growth.
- Hindustan Zinc's cost of production is among the lowest in the world due to its fully integrated operations and large resource base.

### Key investment risks

- Unexpected fall in LME zinc prices would adversely impact earnings.

### Recent developments

- The Board of Directors of HZL has proposed issue of bonus share in the ratio of 1:1 and also sub division of its equity share of face value of Rs10 each into 5 equity shares of face value of Rs2 each, subject to approval of shareholders.

### Valuation and view

- The stock trades at P/E of 10.5x FY12E and EV/EBITDA of 5.9x FY11. Maintain **Buy**.

### Sector view

- Zinc is our most preferred base metal because of favorable demand outlook and constraints in supply growth due to shortage of large scale low cost mines in the world.

### Comparative valuations

		Hindustan Zinc	HNDL	NALCO
P/E (x)	FY11E	12.9	14.0	18.6
	FY12E	10.5	12.1	14.4
P/BV (x)	FY11E	2.6	2.9	2.1
	FY12E	2.1	2.4	1.9
EV/Sales (x)	FY11E	4.5	0.9	3.2
	FY12E	3.5	0.9	2.7
EV/EBITDA (x)	FY11E	8.1	7.4	9.9
	FY12E	5.9	6.6	7.1

### Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	64.9	64.9	64.9
Domestic Inst	2.0	1.9	1.6
Foreign	1.7	1.7	2.1
Others	31.3	31.5	31.4

### EPS: MOSL forecast v/s Consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	103.4	100.9	2.4
FY12	127.0	126.3	0.5

### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1,339	1,428	6.6	Buy

### Stock performance (1 year)



## Financials and Valuations

INCOME STATEMENT		(RS MILLION)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
<b>Net Sales</b>	<b>56,803</b>	<b>80,170</b>	<b>92,797</b>	<b>104,107</b>	<b>109,457</b>	
<i>Change (%)</i>	<i>-27.9</i>	<i>41.1</i>	<i>15.8</i>	<i>12.2</i>	<i>5.1</i>	
Total Expenses	29,461	33,469	41,873	42,328	44,652	
<b>EBITDA</b>	<b>27,342</b>	<b>46,701</b>	<b>50,925</b>	<b>61,779</b>	<b>64,806</b>	
<i>% of Net Sales</i>	<i>48.1</i>	<i>58.3</i>	<i>54.9</i>	<i>59.3</i>	<i>59.2</i>	
Depn. & Amortization	2,853	3,343	4,658	4,843	4,825	
<b>EBIT</b>	<b>24,489</b>	<b>43,358</b>	<b>46,266</b>	<b>56,936</b>	<b>59,980</b>	
Net Interest	219	439	111	196	196	
Other Income	9,312	7,222	7,625	10,346	13,692	
<b>PBT before EO</b>	<b>33,582</b>	<b>50,141</b>	<b>53,781</b>	<b>67,087</b>	<b>73,476</b>	
EO Income			-212			
<b>PBT after EO</b>	<b>33,582</b>	<b>50,141</b>	<b>53,569</b>	<b>67,087</b>	<b>73,476</b>	
Tax	6,306	9,727	10,053	13,417	14,695	
<i>Rate (%)</i>	<i>18.8</i>	<i>19.4</i>	<i>18.8</i>	<i>20.0</i>	<i>20.0</i>	
<b>Reported PAT</b>	<b>27,276</b>	<b>40,414</b>	<b>43,516</b>	<b>53,669</b>	<b>58,781</b>	
<b>Adjusted PAT</b>	<b>27,276</b>	<b>40,414</b>	<b>43,688</b>	<b>53,669</b>	<b>58,781</b>	
<i>Change (%)</i>	<i>-38.0</i>	<i>48.2</i>	<i>8.1</i>	<i>22.8</i>	<i>9.5</i>	

BALANCE SHEET		(RS MILLION)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Share Capital	4,225	4,225	4,225	4,225	4,225	
Reserves	139,351	177,014	217,282	266,996	321,822	
<b>Net Worth</b>	<b>143,576</b>	<b>181,240</b>	<b>221,507</b>	<b>271,221</b>	<b>326,047</b>	
Total Loans	87	605	605	605	605	
Deferred Tax Liability	5,589	7,112	8,548	10,465	12,565	
<b>Capital Employed</b>	<b>149,251</b>	<b>188,957</b>	<b>230,660</b>	<b>282,291</b>	<b>339,217</b>	
Gross Block	58,555	82,407	94,872	98,872	102,872	
Less: Accum. Deprn.	17,506	20,766	24,319	27,894	31,491	
<b>Net Fixed Assets</b>	<b>41,049</b>	<b>61,641</b>	<b>70,554</b>	<b>70,978</b>	<b>71,381</b>	
Capital WIP	11,084	11,130	11,084	11,084	11,084	
Investments	69,289	109,492	142,203	193,240	249,683	
<b>Curr. Assets</b>	<b>37,839</b>	<b>19,953</b>	<b>20,555</b>	<b>21,364</b>	<b>21,746</b>	
Inventory	5,457	4,517	4,968	5,574	5,860	
Account Receivables	1,649	1,518	1,670	1,873	1,970	
Cash and Bank Balance	27,192	9,275	9,275	9,275	9,275	
Others	3,542	4,642	4,642	4,642	4,642	
<b>Curr. Liability &amp; Prov.</b>	<b>10,010</b>	<b>13,258</b>	<b>13,735</b>	<b>14,375</b>	<b>14,678</b>	
Account Payables	3,722	4,777	5,253	5,893	6,196	
Provisions & Others	6,287	8,481	8,481	8,481	8,481	
<b>Net Current Assets</b>	<b>27,830</b>	<b>6,695</b>	<b>6,820</b>	<b>6,989</b>	<b>7,069</b>	
<b>Appl. of Funds</b>	<b>149,251</b>	<b>188,957</b>	<b>230,660</b>	<b>282,291</b>	<b>339,217</b>	

E: MOSL Estimates

RATIOS						
Y/E MARCH	FY09	FY10	FY11E	2012E	2013E	
<b>Basic (Rs)</b>						
<b>EPS</b>	<b>64.6</b>	<b>95.6</b>	<b>103.4</b>	<b>127.0</b>	<b>139.1</b>	
Cash EPS	71.3	103.6	114.0	138.5	150.5	
BV/Share	339.8	428.9	524.2	641.9	771.7	
DPS	4.0	6.0	7.0	8.0	8.0	
Payout (%)	7.2	7.3	7.9	7.4	6.7	
<b>Valuation (x)</b>						
P/E	20.7	14.0	13.0	10.5	9.6	
Cash P/E	18.8	12.9	11.7	9.7	8.9	
P/BV	3.9	3.1	2.6	2.1	1.7	
EV/Sales	8.3	5.6	4.5	3.5	2.8	
EW/EBITDA	17.2	9.6	8.1	5.9	4.7	
Dividend Yield (%)	0.3	0.4	0.5	0.6	0.6	
<b>Return Ratios (%)</b>						
EBITDA Margins (%)	48.1	58.3	54.9	59.3	59.2	
Net Profit Margins (%)	48.0	50.4	47.1	51.6	53.7	
RoE	19.0	22.3	19.7	19.8	18.0	
RoCE	16.4	22.9	20.1	20.2	17.7	
RoIC	47.7	59.2	55.2	66.3	69.4	
<b>Leverage Ratio (x)</b>						
Current Ratio	3.8	1.5	1.5	1.5	1.5	
Interest Cover Ratio	111.9	98.7	418.7	290.5	306.0	

CASHFLOW STATEMENT		(RS MILLION)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Pre-tax profit	33,582	50,141	53,569	67,087	73,476	
Depreciation	2,853	3,343	4,658	4,843	4,825	
(Inc)/Dec in Wkg. Cap.	3,866	3,219	-126	-169	-80	
Tax paid	-5,209	-8,309	-8,617	-11,501	-12,596	
Other operating activities	-503	229	-893	-1,267	-1,229	
<b>CF from Op. Activity</b>	<b>34,589</b>	<b>48,623</b>	<b>48,591</b>	<b>58,993</b>	<b>64,397</b>	
(Inc)/Dec in FA + C/WIP	-13,166	-23,897	-12,420	-4,000	-4,000	
(Pur)/Sale of Investments	-5,964	-40,203	-32,711	-51,038	-56,442	
<b>CF from Inv. Activity</b>	<b>-19,131</b>	<b>-64,100</b>	<b>-45,131</b>	<b>-55,038</b>	<b>-60,442</b>	
Debt Raised/(Repaid)	83	518				
Dividend (incl. tax)	-1,977	-2,956	-3,461	-3,955	-3,955	
<b>CF from Fin. Activity</b>	<b>-1,894</b>	<b>-2,439</b>	<b>-3,461</b>	<b>-3,955</b>	<b>-3,955</b>	
<b>(Inc)/Dec in Cash</b>	<b>13,564</b>	<b>-17,916</b>				
Add: opening Balance	13,628	27,192	9,275	9,275	9,275	
<b>Closing Balance</b>	<b>27,192</b>	<b>9,275</b>	<b>9,275</b>	<b>9,275</b>	<b>9,275</b>	



For more copies or other information, contact

**Institutional:** Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com

**Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021**

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

**Disclosure of Interest Statement**

**Hindustan Zinc**

- |   |    |
|---|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
| 4. Investment Banking relationship with company covered | No |

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.