

July 26, 2010

Rating	Accumulate
Price	Rs988
Target Price	Rs1,067
Implied Upside	8.0%
Sensex	18,131

(Prices as on July 23, 2010)

Trading Data

Market Cap. (Rs bn)	417.4
Shares o/s (m)	422.5
Free Float	35.08%
3M Avg. Daily Vol ('000)	237.2
3M Avg. Daily Value (Rs m)	241.8

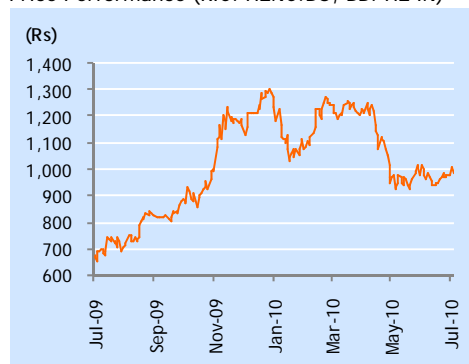
Major Shareholders

Promoters	64.92%
Foreign	1.94%
Domestic Inst.	31.03%
Public & Others	2.11%

Stock Performance

(%)	1M	6M	12M
Absolute	(0.8)	(16.6)	44.2
Relative	(2.9)	(24.2)	25.2

Price Performance (RIC: HZNC.BO, BB: HZ IN)



Source: Bloomberg

- Mining hiccups and higher-than-expected cost push dragged earnings:** Hindustan Zinc (HZL) reported PAT at Rs8.9bn, much below PLE and consensus estimate of Rs10.6bn and Rs10.0bn, respectively. However, fall in EBITDA levels arrived much sharper against PLE and consensus estimate due to lower grades of ore realised at *Rampura Agucha* mine, shutdown of one of the mills for repairs and maintenance and higher-than-expected rise in the energy cost.
- Lower realisations and cost pressures take its toll on earnings:** Marred by weak zinc realisations (down 13% QoQ) and lower volumes in terms of metal content (down 6% QoQ), revenues fell by 22% QoQ to Rs19.5bn. EBITDA declined by 33.5% QoQ due to higher cost of production associated with lower ore grade realised from the mines, supplies from outside due to shutdown at one of the mills and sharp escalation in energy cost. PAT fell by 28%, lower as compared to fall in EBITDA and PBT, primarily due to lower tax rate (16% v/s 20%).
- Capex update:** Work on the 100ktpa lead smelter is moving as per target, with project scheduled for completion by Q2FY11. Along with the smelter, HZL would also commence its commercial production from the first unit of 80MW (out of two) which got synchronised during the quarter. Second unit would be commissioned during Q3FY11. Recently commissioned 210ktpa zinc smelter picked up strongly, with an operating rate of 63% during the quarter.
- Valuation and Outlook:** On the back of strong earnings quality, positive outlook on the Zinc-Lead business and strong balance sheet enhancing returns through inorganic route, we continue to remain **positive** on the stock. HZL is expected to generate total free cash flow of Rs30bn and Rs38bn in FY11 and FY12, respectively after incurring capex of Rs35bn. At CMP, stock trades at P/E of 10.5x and 9.2x FY11E and FY12E, respectively, while on EV/EBITDA, it quotes at 5.9x and 4.4x FY11E and FY12E, respectively. We maintain our 'Accumulate' rating on the stock.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenues (Rs m)	56,803	80,170	84,727	92,696
Growth (%)	(27.9)	41.1	5.7	9.4
EBITDA (Rs m)	27,342	46,701	44,370	49,490
PAT (Rs m)	27,276	40,414	39,739	45,602
EPS (Rs)	64.6	95.6	94.1	107.9
Growth (%)	(38.0)	48.2	(1.7)	14.8
Net DPS (Rs)	4.0	6.0	6.0	6.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	48.1	58.3	52.4	53.4
RoE (%)	20.8	24.9	19.9	19.1
RoCE (%)	16.2	19.6	16.0	16.8
EV / sales (x)	5.7	3.7	3.1	2.3
EV / EBITDA (x)	11.7	6.4	5.9	4.4
PE (x)	15.3	10.3	10.5	9.2
P / BV (x)	2.9	2.3	1.9	1.6
Net dividend yield (%)	0.4	0.6	0.6	0.6

Source: Company Data; PL Research

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Q1FY11 Result Overview

(Rs m)

Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
Net Sales	19,508	15,122	29.0	24,985	84,727	80,170	5.7
Raw material consumed	(422)	569	(174.2)	530		753	
<i>% of Net Sales</i>	<i>(2.2)</i>	<i>3.8</i>		<i>2.1</i>		<i>0.9</i>	
Stores and spares consumed	1,965	1,340	46.6	1,727	8,272	5,876	40.8
<i>% of Net Sales</i>	<i>10.1</i>	<i>8.9</i>		<i>6.9</i>	<i>9.8</i>	<i>7.3</i>	
Power and fuel	2,251	1,891	19.0	1,806	12,733	11,274	12.9
<i>% of Net Sales</i>	<i>11.5</i>	<i>12.5</i>		<i>7.2</i>	<i>15.0</i>	<i>14.1</i>	
Mining Royalty Rates	1,551	920	68.7	1,906	7,283	8,247	(11.7)
<i>% of Net Sales</i>	<i>8.0</i>	<i>6.1</i>		<i>7.6</i>	<i>8.6</i>	<i>10.3</i>	
Other manufacturing expenses	1,909	1,201	59.0	1,600	3,458	(410)	(942.5)
<i>% of Net Sales</i>	<i>9.8</i>	<i>7.9</i>		<i>6.4</i>	<i>4.1</i>	<i>-0.5</i>	
Employee Cost	1,482	806	84.0	1,352	5,511	4,574	20.5
<i>% of Net Sales</i>	<i>7.6</i>	<i>5.3</i>		<i>5.4</i>	<i>6.5</i>	<i>5.7</i>	
Selling, general & administrative	781	717	8.9	1,047	3,100	3,156	(1.8)
<i>% of Net Sales</i>	<i>4.0</i>	<i>4.7</i>		<i>4.2</i>	<i>3.7</i>	<i>3.9</i>	
Total Expenditure	9,516	7,443	27.8	9,967	40,357	33,469	20.6
EBITDA	9,992	7,679	30.1	15,018	44,370	46,701	(5.0)
<i>Margin (%)</i>	<i>51.2</i>	<i>50.8</i>		<i>60.1</i>	<i>52.4</i>	<i>58.3</i>	
Depreciation	1,123	748	50.1	1,006	4,578	3,343	37.0
Other income	1,810	1,946	(7.0)	1,809	9,608	7,222	33.0
EBIT	10,680	8,877	20.3	15,820	49,400	50,580	(2.3)
Interest	66	32	104.7	277	339	439	(22.8)
PBT	10,614	8,845	20.0	15,543	49,061	50,141	(2.2)
Tax	1,705	1,657	2.9	3,153	9,322	9,727	(4.2)
<i>% PBT</i>	<i>16.1</i>	<i>18.7</i>		<i>20.3</i>	<i>19.0</i>	<i>19.4</i>	
Reported PAT	8,909	7,188	23.9	12,390	39,739	40,414	(1.7)

Key operating metrics

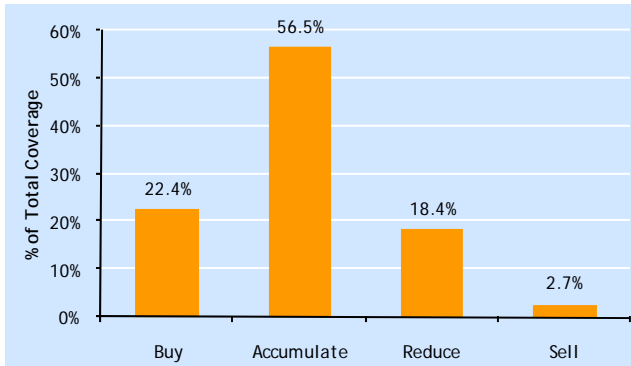
Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
Volume in tonnes							
- Refined Zinc	164,445	138,015	19.2	151,294	732,688	577,685	26.8
- Refined Lead	14,075	15,073	(6.6)	18,450	86,381	64,391	34.2
Realisation (Rs/Tonne)							
- Refined Zinc	97,850	77,686	26.0	113,039	92,623	99,421	(6.8)
- Refined Lead	102,764	85,322	20.4	113,532	91,135	105,922	(14.0)

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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