

Hindustan Zinc (HINZIN)

Rs 868

WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 910 to Rs 947
EPS (FY10E)	Changed from Rs 76.5 to Rs 81.5
EPS (FY11E)	Changed from Rs 87.3 to Rs 89.6
RATING.....	Changed from Outperformer to Hold

Unstoppable cash machine...

Hindustan Zinc (HZN) reported stellar numbers for Q2FY10 with net sales at Rs 1789.6 crore and net profit at ~Rs 935 crore, registering a sequential growth of 18.3% and 30.1%, respectively. The EBITDA margin came in at a healthy 60.1%, showing growth of 840 bps QoQ and 380 bps YoY due to continuous effort of cost reduction measures reducing overall expenses by ~20% YoY. We are revising our earnings estimates for FY10E and FY11E by 6.5% and 2.6%, respectively on the back of ~5% and ~7% rise in zinc and lead realisations, respectively. We maintain our positive stance on the stock.

Higher zinc sales volume and healthy premium

HZN's mined metal production of ~1.92 lakh tonne during the quarter was close to the rated capacity. This helped the company achieve higher zinc sales volume, up ~15% YoY and ~2% QoQ. Also, the premium garnered over the LME price for zinc and lead came in at a hefty US\$173/tonne and US\$205/tonne, respectively. Lower lead sales due to smelter shutdown were more than compensated by higher revenues from lead concentrate sales.

Expansion on track

The proposed expansion plan to 10.64 lakh tonne of metal capacity is progressing well and is on schedule for completion by mid-2010. Mining expansion projects are also on schedule. The company expects the positive effect of higher volumes on net sales and profits to start coming in from H2FY11E.

Valuation

At the CMP of Rs 868, the stock is trading at FY11E P/E of 9.7x and FY11E EV/EBITDA of 5.1x (~23% discount to global average). With zinc and lead prices holding well above US\$2000/tonne at LME currently, there remains a significant chance of HZN reporting higher profits, going forward. We value the stock at 5.8x FY11E EV/EBITDA to arrive at a target price of Rs 947. We assign a **HOLD** rating to the stock.

Exhibit 1: Performance Highlights

(Rs Crore)	Q2FY10	Q2FY10E	Q2FY09	Q1FY10	QoQ (Chg %)	YoY (Chg %)
Net Sales	1789.6	1714.9	1743.8	1512.2	18.3	2.6
EBITDA	1075.5	1012.7	982.1	782.3	37.5	9.5
EBITDA Margin (%)	60.1	59.1	56.3	51.7	+840 bps	+380 bps
Depreciation	77.1	73.0	70.4	74.8	3.1	9.5
Interest	5.4	0.0	7.1	3.2	68.1	NA
Reported PAT	935.0	912.4	959.5	718.8	30.1	-2.6
EPS (Rs)	22.1	21.6	22.7	17.0	30.1	-2.6

Source: Company, ICICIdirect.com Research

Rating matrix

Rating	:	Hold
Target	:	Rs 947
Target Period	:	12 months
Potential Upside	:	9 %

Key Financials

(Rs Crore)	FY08	FY09	FY10E	FY11E
Net Sales	7877.8	5680.3	6962.9	7821.1
EBITDA	5608.8	2874.3	3936.0	4429.9
Net Profit	4396.1	2727.6	3443.6	3787.0

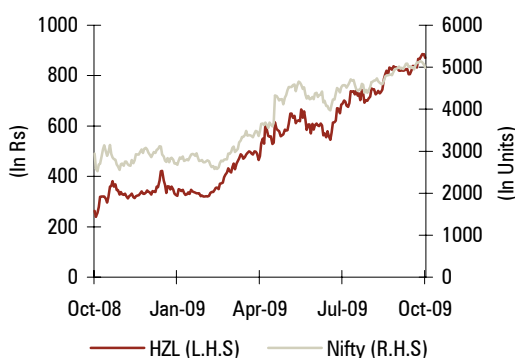
Valuation summary

	FY08	FY09	FY10E	FY11E
PE (x)	8.3	13.4	10.7	9.7
Target PE (x)	9.1	14.7	11.6	10.6
EV/EBITDA (x)	5.2	9.4	6.4	5.1
P/BV (x)	3.1	2.6	2.1	1.7
RoNW (%)	45.1	20.8	21.6	19.6
RoCE (%)	55.3	19.8	22.7	21.0

Stock data

Market Capitalisation	Rs 36677.2 Crore
Debt (FY09)	Rs 8.3 Crore
Cash & Invst (FY09)	Rs 9648 Crore
EV	Rs 27037.5 Crore
52 week H/L	894/215
Equity capital	Rs 422.5 Crore
Face value	Rs 10
MF Holding (%)	1.3
FII Holding (%)	1.5

Price movement (Stock vs. Nifty)



Analyst's name

Pankaj Pandey
 pankaj.pandey@icicisecurities.com

Goutam Chakraborty
 goutam.chakraborty@icicisecurities.com

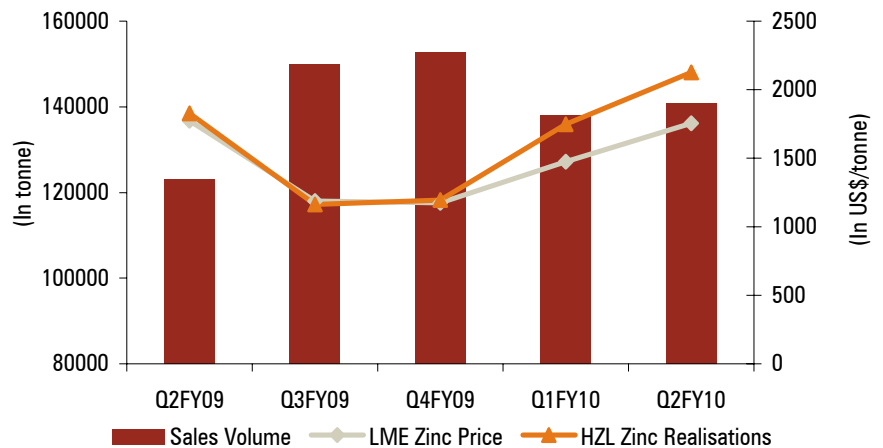
Abhisar Jain
 abhisar.jain@icicisecurities.com

Result Analysis

The company reported stellar numbers for Q2FY10. This was due to higher zinc sales volume, increased realisations due to continuous upward movement in LME zinc and lead prices, higher concentrate sales, higher premiums obtained over LME prices and reduction in overall production cost despite royalty hike by the government.

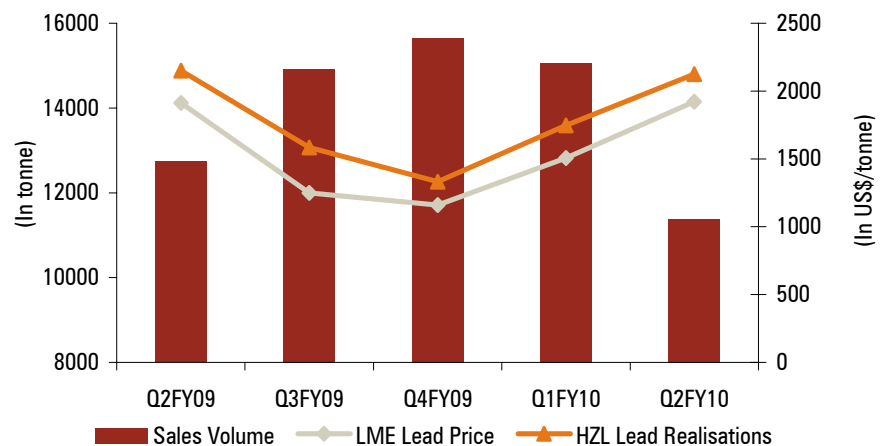
The company has reported zinc sales volume of ~1.41 lakh tonne, up 15%. Realisations have improved due to LME price going up and higher premiums garnered by HZL

Exhibit 2: Sales volume & realisations (zinc)



Source: Company, ICICIdirect.com Research

Exhibit 3: Sales volume & realisations (lead)



Source: Company, ICICIdirect.com Research

Exhibit 4: Concentrate sales volume and net revenue

	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
Volume (MIC-tonne)					
Zinc	38934.5	219.2	-130.7	36190.0	10898.0
Lead	10060.7	1122.1	15121.1	0.0	11786.0
Net revenue (Rs Crore)					
Zinc	193.9	(44.3)	(2.9)	189.5	65.4
Lead	130.8	(12.4)	127.8	-	141.6

Source: Company, ICICIdirect.com Research

Lead volumes dropped due to shutdown of lead smelter. Lead realisations have moved up sharply due to LME lead prices spiking sharply due to fears of a shutdown in smelters in China. Premium on lead for HZL has been maintained

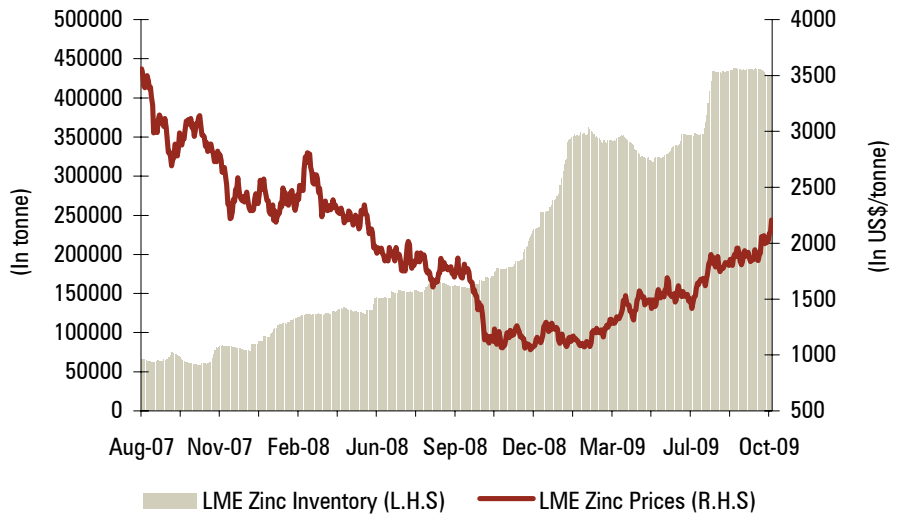
Concentrate sales have surprised on the positive side. The company has made up the effect of lower metal sales by getting robust revenues from concentrate sales in the last two quarters

Product price trend

LME prices of zinc and lead have moved up sharply in the last few months. Inventory levels for zinc have stabilised but that for lead have gone up significantly. This has primarily happened because a rise in prices has attracted idle capacities to come on stream again. This actually resulted into improved supply. Though a simultaneous increase in demand and continuous fall in US dollar have mitigated the negative impact of higher supply so far, we expect some correction to take place in prices of both lead and zinc in the short to medium term.

LME zinc prices have recovered more than 100% from their lows of December 2008 on account of record galvanised steel production in China

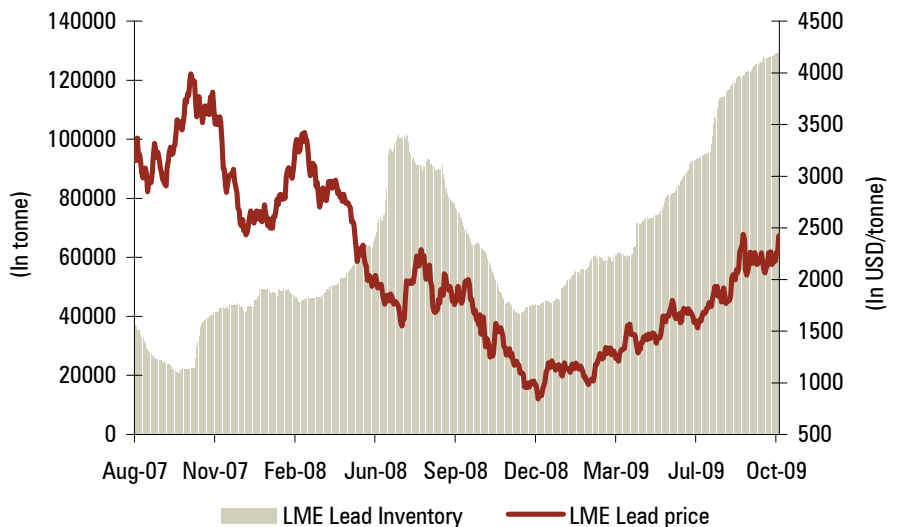
Exhibit 5: LME zinc price and inventory



Source: Bloomberg, ICICIdirect.com Research

LME lead prices have gone up more than 130% from their December lows and are sustaining at well above US\$2000/tonne due to fears of a permanent shutdown of lead smelters in China due to environmental and health issues

Exhibit 6: LME lead price and inventory



Source: Bloomberg, ICICIdirect.com Research

Outlook & earnings revision

With Chinese demand for zinc holding up at a robust level on the back of strong galvanised steel production, LME zinc prices have moved up quite swiftly over the last six months. Lead prices too have spiked up sharply due to a shutdown of some of the smelters in China due to environmental issues. We believe there remains a strong chance of correction in both zinc and lead prices to some extent, going forward as the price movement has been too fast and too sharp. Any rebound in the US dollar would also put pressure on prices again. Taking these into account we prefer to remain conservative in our assumptions on average realisations for both zinc and lead in FY10E and FY11E.

We are revising our average zinc realisations for FY10E and FY11E by 5.4% and 5.3%, respectively

We are revising our average lead realisations for FY10E and FY11E by 7.2%

Exhibit 7: Revision in average realisations

	FY10E			FY11E		
	Current	Previous	% Chg.	Current	Previous	% Chg.
Zinc	1721.6	1634.1	5.4	1842.0	1748.5	5.3
Lead	1857.5	1732.5	7.2	1987.6	1853.8	7.2

Source: Company, ICICIdirect.com Research

Exhibit 8: Revision in EPS

	FY10E			FY11E		
	Current	Previous	% Chg.	Current	Previous	% Chg.
EPS	81.5	76.5	6.5	89.6	87.3	2.6

Source: Company, ICICIdirect.com Research

Valuations

The stock has seen a smart run up recently with rise in zinc and lead prices and is currently trading at Rs 868. This discounts its FY11E consolidated EPS of Rs 89.6 by 9.7x and FY11E EV/EBITDA by 5.1x (at a discount of ~23% to the global average). Given the current situation and our expectations of product price correction, we believe the share price run-up in the medium term would not be as sharp as we had seen during the recent past. Our outlook for the company remains positive. However, we value the stock on FY11E EV/EBITDA and assign a multiple of 5.8x FY11E EV/EBITDA (~15% discount to global average) to arrive at a target price of Rs 947. We assign a **HOLD** rating to the stock.

Exhibit 9: Global peer valuation

Company	P/E			EV/EBITDA			ROCE		
	CY09	CY10	CY11	CY09	CY10	CY11	CY09	CY10	CY11
Boliden	13.1	8.2	8.2	7.4	5	4.8	7.8	12.2	11
Xstrata	17	11	8.8	9.1	6.5	5.5	5	7.8	9.2
Umicore	43.8	23.7	16.4	12	9.6	8	2.1	4.5	5.1
Oz Minerals	88.2	12.8	11.2	9.9	5.6	5.1	4.3	10.8	12.7
Nyrstar	30	26.8	7.9	9.2	6.6	3.1	2.3	2.7	10.1
Korea Zinc	11	9.8	9.2	7.2	6.2	5.8	15.1	14.8	13.6
Global Average		15.4	10.3	9.1	6.6	5.4	6.1	8.8	10.3
HZL (CY09~FY10)	10.7	9.7	7.5	6.4	5.1	3.1	22.7	21.0	23.0
Discount to global average (%)		-37.0	-26.7	-29.4	-23.3	-42.8			

Source: Bloomberg, ICICIdirect.com Research

ICICIdirect.com coverage universe (Metals & Mining)

Adhunik Metaliks					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	ADHMET	CMP (Rs)	112.9	FY09	1270.3	5.1	22.1	10.4	13.3	9.1
		Target (Rs)	149.0	FY10E	1386.7	7.8	14.5	7.5	14.0	12.0
MCap (Rs Cr)	1190.6	Upside (%)	32.0	FY11E	1605.6	12.1	9.4	6.4	18.3	14.5
JSW Steel					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	JINVIJ	CMP (Rs)	869.1	FY09	16081.5	14.7	59.1	9.5	3.0	9.1
		Target (Rs)	576.0	FY10E	18249.9	63.6	13.7	8.1	11.9	10.6
MCap (Rs Cr)	13600.4	Upside (%)	-33.7	FY11E	21505.9	80.6	10.8	6.3	13.4	12.2
Usha Martin					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	USHBEL	CMP (Rs)	72.6	FY09	2949.8	7.4	9.8	6.5	16.3	14.4
		Target (Rs)	60.0	FY10E	2737.1	7.6	9.5	6.3	15.2	13.2
MCap (Rs Cr)	1820.3	Upside (%)	-17.3	FY11E	3955.4	12.3	5.9	4.6	20.0	18.2
Visa Steel					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	VISST	CMP (Rs)	40.2	FY09	1035.0	-6.1	NA	NA	NA	NA
		Target (Rs)	25.0	FY10E	1132.1	6.1	6.5	8.0	19.4	10.9
MCap (Rs Cr)	355.3	Upside (%)	-37.7	FY11E	1431.0	8.5	4.7	5.9	21.3	14.9
Tata Steel - Cons					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	TISCO	CMP (Rs)	543.0	FY09	145686.3	67.8	8.0	4.5	17.0	15.0
		Target (Rs)	340.0	FY10E	102754.9	33.2	16.4	7.6	8.9	7.8
MCap (Rs Cr)	39682.4	Upside (%)	-37.4	FY11E	129229.0	49.1	11.1	6.4	12.0	10.5
SAIL					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	SAIL	CMP (Rs)	182.7	FY09	43639.7	14.9	12.2	7.1	22.1	21.0
		Target (Rs)	185.0	FY10E	43688.8	17.3	10.5	5.7	21.4	20.7
MCap (Rs Cr)	75462.4	Upside (%)	1.3	FY11E	46901.5	16.4	11.2	6.9	17.5	16.4
Sesa Goa					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	SESGOA	CMP (Rs)	321.4	FY09	4959.1	25.3	12.7	8.3	42.2	51.9
		Target (Rs)	288.0	FY10E	4860.2	22.7	14.1	10.2	26.7	22.0
MCap (Rs Cr)	26366.8	Upside (%)	-10.4	FY11E	5999.0	27.1	11.9	7.5	24.7	22.6
Hindustan Zinc					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	HINZIN	CMP (Rs)	868.1	FY09	5680.3	64.6	13.4	9.4	20.8	19.8
		Target (Rs)	947.0	FY10E	6962.9	81.5	10.7	6.4	21.6	22.7
MCap (Rs Cr)	36677.7	Upside (%)	9.1	FY11E	7821.1	89.6	9.7	5.1	19.6	21.0

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer (OP): 20% or more;

Performer (P): Between 10% and 20%;

Hold (H): +-10% return;

Underperformer (U): -10% or more;

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
 ICICI Securities Limited,
 7th Floor, Akruiti Centre Point,
 MIDC Main Road, Marol Naka
 Andheri (East)
 Mumbai – 400 093
 research@icicidirect.com**

ANALYST CERTIFICATION

We I/, Pankaj Pandey MBA (FINANCE) Goutam Chakraborty MSC (ECONOMICS) Abhisar Jain MBA (FINANCE) research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that Pankaj Pandey MBA (FINANCE) Goutam Chakraborty MSC (ECONOMICS) Abhisar Jain MBA (FINANCE) research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that Pankaj Pandey MBA (FINANCE) Goutam Chakraborty MSC (ECONOMICS) Abhisar Jain MBA (FINANCE) research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.