

April 21, 2010

Rating	Accumulate
Price	Rs1, 232
Target Price	Rs1, 330
Implied Upside	8.0%
Sensex	17,473

(Prices as on April 21, 2010)

Trading Data

Market Cap. (Rs bn)	520.5
Shares o/s (m)	422.5
Free Float	35.08%
3M Avg. Daily Vol ('000)	227.4
3M Avg. Daily Value (Rs m)	265.2

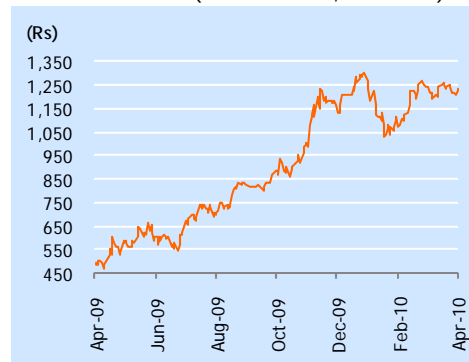
Major Shareholders

Promoters	64.92%
Foreign	2.24%
Domestic Inst.	30.95%
Public & Others	1.89%

Stock Performance

(%)	1M	6M	12M
Absolute	(0.7)	39.6	152.3
Relative	(0.1)	36.9	92.0

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



Source: Bloomberg

Hindustan Zinc

In line with expectation

- **Results in line with expectation:** Hindustan Zinc reported PAT at Rs12.39bn, in-line with our expectation of Rs12.01bn. However, on EBITDA level, it surpassed our expectation by a margin of 5% at Rs15bn, primarily on the back of higher-than-expected sales volume of zinc and lead concentrate.
- **Better zinc prices and higher concentrate volume led the growth:** Led by better zinc realisations (up 1.3% QoQ) and higher zinc-led concentrate (96kt v/s 41kt in Q3), the net sales grew by 13% QoQ. EBITDA grew by 11% QoQ to Rs15bn, primarily on account of higher concentrate sales and better realisations in acid business. PAT increased by 8% QoQ, lower as compared to growth in EBITDA, due to higher depreciation and interest cost associated with commissioning of zinc smelter.
- **Capex update:** The 210 Ktpa hydro zinc smelter at Dariba and the 1 mtpa zinc concentrator at Rampura Agucha were commissioned towards the end of the quarter, around three months ahead of schedule. Post commissioning, the total smelting capacity has increased to 964 ktpa. The 100 ktpa lead smelter, along with 160 MW CPP at Dariba, is on schedule and would be commissioned during Q2FY11.
- **Valuation and Outlook:** On the back of strong earnings quality, driven by quality mining assets, positive outlook on the zinc-led and strong balance sheet to enhance the returns through inorganic route, we continue to remain **positive** on the stock. The company is likely to generate total free cash flow (FCF) of Rs42bn and Rs53bn in FY11 and FY12, respectively identical to the peak FCF achieved in FY07 after undertaking capex of Rs24bn. At CMP, stock trades at P/E of 10.3x and 8.6x FY11E and FY12E, respectively, while on EV/EBITDA, it quotes at 6.3x and 4.4x FY11E and FY12E, respectively. We maintain our 'Accumulate' rating on the stock.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	56,803	80,170	95,780	109,769
Growth (%)	(27.9)	41.1	26.0	14.6
EBITDA (Rs m)	27,342	46,701	56,801	66,777
PAT (Rs m)	27,276	40,414	50,358	60,622
EPS (Rs)	64.6	95.6	119.2	143.5
Growth (%)	(38.0)	48.2	21.1	20.4
Net DPS (Rs)	4.0	6.0	6.0	6.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	48.1	58.3	59.3	60.8
RoE (%)	20.8	25.5	24.5	23.5
RoCE (%)	16.2	19.5	18.8	20.3
EV / sales (x)	7.5	5.3	3.7	2.7
EV / EBITDA (x)	15.5	8.7	6.3	4.4
PE (x)	19.1	12.5	10.3	8.6
P / BV (x)	3.6	2.9	2.3	1.8
Net dividend yield (%)	0.3	0.5	0.5	0.5

Source: Company Data; PL Research

Kamlesh Bagmar
KamleshBagmar@PLIndia.com
+91-22-6632 2237

Archit Singhal
ArchitSinghal@PLIndia.com
+91-22-6632 2256

Q4FY10 Result Overview

(Rs m)

Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Net Sales	24,985	12,627	97.9	22,167	80,170	56,803	41.1
Mining and Manufacturing	5,663	4,663	21.4	4,557	19,612	19,056	2.9
<i>% of Net Sales</i>	<i>22.7</i>	<i>36.9</i>		<i>20.6</i>	<i>24.5</i>	<i>33.5</i>	
Employee Cost	1,352	872	55.1	1,379	4,574	3,649	25.3
<i>% of Net Sales</i>	<i>5.4</i>	<i>6.9</i>		<i>6.2</i>	<i>5.7</i>	<i>6.4</i>	
Mining Royalty Rates	1,906	836	128.0	1,917	6,128	3,642	68.2
<i>% of Net Sales</i>	<i>7.6</i>	<i>6.6</i>		<i>8.6</i>	<i>7.6</i>	<i>6.4</i>	
Other Expenses	1,047	706	48.3	777	3,156	3,114	1.3
<i>% of Net Sales</i>	<i>4.2</i>	<i>5.6</i>		<i>3.5</i>	<i>3.9</i>	<i>5.5</i>	
Total Expenditure	9,967	7,076	40.9	8,630	33,469	29,461	13.6
EBITDA	15,018	5,551	170.6	13,537	46,701	27,342	70.8
<i>Margin (%)</i>	<i>60.1</i>	<i>44.0</i>		<i>61.1</i>	<i>58.3</i>	<i>48.1</i>	
Depreciation	1,006	750	34.1	817	3,343	2,853	17.2
Other income	1,809	2,205	(18.0)	1,643	7,222	9,312	(22.4)
EBIT	15,820	7,005	125.8	14,363	50,580	33,801	49.6
Interest	277	49	469.5	77	439	219	100.8
PBT	15,543	6,956	123.4	14,286	50,141	33,582	49.3
Tax	3,153	1,442	118.7	2,799	9,727	6,306	54.2
<i>% PBT</i>	<i>20.3</i>	<i>20.7</i>		<i>19.6</i>	<i>19.4</i>	<i>18.8</i>	
Reported PAT	12,390	5,515	124.7	11,487	40,414	27,276	48.2

Key operating metrics

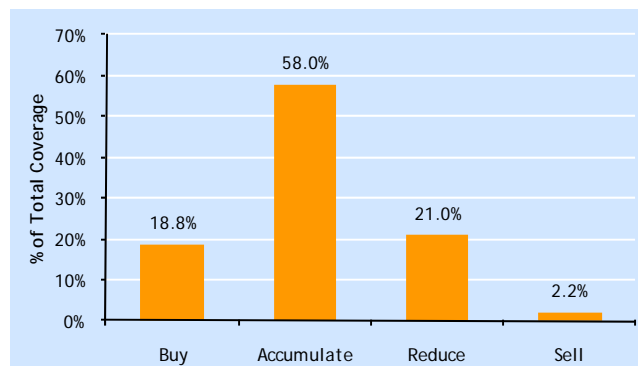
Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Volume in tonnes							
- Refined Zinc	151,294	152,796	(1.0)	147,497	577,685	552,330	4.6
- Refined Lead	18,450	15,651	17.9	19,486	64,391	60,564	6.3
Realisation (Rs/Tonne)							
- Refined Zinc	113,039	59,541	89.9	111,610	99,420	70,353	41.3
- Refined Lead	113,532	66,442	70.9	116,408	105,923	86,384	22.6

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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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