



## Hindustan Zinc

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,843	HZ IN
	REUTERS CODE
S&P CNX: 4,399	HZNC.BO
Equity Shares (m)	422.5
52-Week Range	772/215
1,6,12 Rel. Perf. (%)	4/31/14
M.Cap. (Rs b)	275.5
M.Cap. (US\$ b)	5.7

22 July 2009

Buy

Rs652

Previous Recommendation: Buy

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	78,778	43,961	104.0	-1.0	6.3	2.3	37.1	41.9	2.5	3.7
3/09A	57,660	27,276	64.6	-38.0	10.1	1.9	19.0	16.9	3.1	6.3
3/10E	56,899	26,636	63.0	-2.3	10.3	1.6	15.8	13.0	2.9	6.4
3/11E	62,027	30,004	71.0	12.6	9.2	1.4	15.3	12.0	2.3	5.0

- Hindustan Zinc's PAT for 1QFY10 declined ~15% YoY to Rs7.2b. This was higher than our estimate of Rs5.7b primarily due to sale of surplus zinc concentrate.
- Net sales declined 8% YoY to Rs15b. Revenues from the sale of refined zinc declined 6% YoY to Rs10.7b due to a 14% decline in rupee realizations, partly cushioned by 9% growth in refined zinc volumes to 138,015 tons. Mined zinc posted impressive production growth of 17% to 162,241 tons. The company sold 36,191 tons of surplus zinc concentrate during the quarter because metal production could not keep pace. Silver production increased 25% YoY to 29,527 kg on account of higher silver content in the mined ore.
- EBITDA declined 21.5% YoY to Rs7.7b and margins declined ~9pp YoY to 51% primarily due to lower realizations from the sale of by-products and metal. LME zinc and lead prices declined 30% YoY to US\$1,509/ton and 35% YoY to US\$1,520/ton, respectively.
- Capacity expansion to 1m tons for zinc and lead combined is expected to be completed on schedule by mid-2010. We have revised our FY10 EPS estimate upward by 11% to Rs63, post the strong performance in 1QFY10 and to adjust for the increased regional premiums on zinc and lead. The company has cash and cash equivalents of Rs101b (Rs239/share). This includes Rs79b in debt mutual funds and Rs22b in fixed deposits with banks. The stock trades at P/BV of 1.6x FY10E (RoE of 16%). Maintain **Buy**.

### QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY 09				FY 10				FY 09	FY 10 E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Net Sales</b>	<b>16,437</b>	<b>17,905</b>	<b>10,692</b>	<b>12,627</b>	<b>15,122</b>	<b>13,426</b>	<b>14,175</b>	<b>14,176</b>	<b>57,660</b>	<b>56,899</b>
Change (YoY %)	-16.6	-9.8	-35.5	-44.3	-8.0	-25.0	32.6	12.3	-26.8	-1.3
Total Expenditure	6,660	8,084	7,641	7,076	7,443	7,627	7,967	7,967	29,461	31,003
<b>EBITDA</b>	<b>9,777</b>	<b>9,821</b>	<b>3,051</b>	<b>5,551</b>	<b>7,679</b>	<b>5,800</b>	<b>6,208</b>	<b>6,209</b>	<b>28,199</b>	<b>25,896</b>
Change (YoY %)	-31.9	-30.8	-70.8	-62.5	-21.5	-40.9	103.5	11.9	-47.6	-8.2
As % of Net Sales	59.5	54.8	28.5	44.0	50.8	43.2	43.8	43.8	48.9	45.5
Interest	69	71	44	49	32	45	53	49	232	179
Depreciation	686	704	712	750	748	778	718	748	2,853	2,992
Other Income	2,094	1,807	2,363	2,205	1,946	2,550	2,724	2,909	8,468	10,129
<b>PBT (before EO item)</b>	<b>11,116</b>	<b>10,853</b>	<b>4,658</b>	<b>6,956</b>	<b>8,845</b>	<b>7,527</b>	<b>8,161</b>	<b>8,321</b>	<b>33,583</b>	<b>32,854</b>
Extra-ordinary Income	-	-	-	-	-	-	-	-	-	-
<b>PBT (after EO item)</b>	<b>11,116</b>	<b>10,853</b>	<b>4,658</b>	<b>6,956</b>	<b>8,845</b>	<b>7,527</b>	<b>8,161</b>	<b>8,321</b>	<b>33,583</b>	<b>32,854</b>
Total Tax	2,638	1,257	969	1,442	1,657	1,430	1,551	1,581	6,306	6,218
% Tax	23.7	11.6	20.8	20.7	18.7	19.0	19.0	19.0	18.8	18.9
<b>Reported PAT</b>	<b>8,478</b>	<b>9,595</b>	<b>3,688</b>	<b>5,515</b>	<b>7,188</b>	<b>6,097</b>	<b>6,610</b>	<b>6,740</b>	<b>27,276</b>	<b>26,636</b>
<b>Adjusted PAT</b>	<b>8,478</b>	<b>9,595</b>	<b>3,688</b>	<b>5,515</b>	<b>7,188</b>	<b>6,097</b>	<b>6,610</b>	<b>6,740</b>	<b>27,276</b>	<b>26,636</b>
Change (YoY %)	-28.5	-16.4	-53.0	-56.8	-15.2	-36.5	79.2	22.2	-38.0	-2.3

E: MOSL Estimates

### Net sales declined 8% YoY to Rs15b

Revenues from the sale of refined zinc declined 6% YoY to Rs10.7b due to a 14% decline in rupee realizations, partly cushioned by 9% growth in refined zinc volumes to 138,015 tons. Mined zinc posted production growth of 17% to 162,241 tons.

The company sold 36,191 tons of surplus zinc concentrate during the quarter at an average realization of Rs52,361/ton.

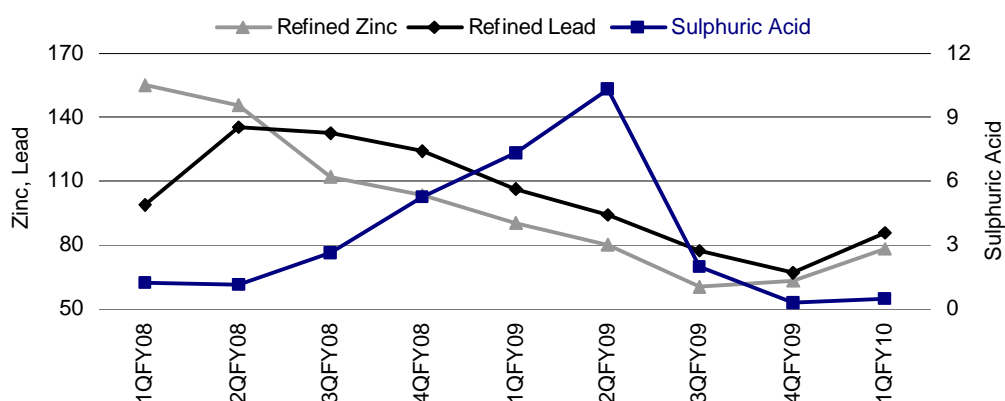
Revenues from the lead segment declined 30% YoY to Rs1.3b due to a 20% decline in rupee realizations. Sales volumes declined 13% YoY to 15,073 tons.

Revenues from by-products declined 52% YoY to Rs1.2b due to a steep decline in sulfuric acid prices to Rs434/ton from ~Rs7,302/ton last year. Silver registered 46% YoY growth in sales volumes to 29,838 kg at an average realization of Rs21,573/kg (-7% YoY).

### EBITDA margin down ~9pp YoY

EBITDA declined 21.5% YoY to Rs7.7b and margins declined ~9pp YoY to 51% primarily on account of lower realizations from the sale of by-products and metal. LME zinc and lead prices declined 30% YoY to US\$1,509/ton and 35% YoY to US\$1,520/ton, respectively.

PRICE REALIZATION OF METAL AND BY-PRODUCTS (RS'000/TON)



Source: Company/MOSL

### Valuation and view

Capacity expansion to 1m tons for zinc and lead combined is expected to be completed on schedule by mid-2010. We have revised our FY10 EPS estimate upward by 11% to Rs63, post the strong performance in 1QFY10 and to adjust for the increased regional premiums on zinc and lead. The company had cash and cash equivalents of Rs101b as of 30 June 2009. This includes Rs79b in debt mutual funds and Rs22b in fixed deposits with banks. The stock trades at P/BV of 1.6x FY10E (RoE of 16%). **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. Its current mining capacity is 750,000tpa of MIC (metal in content), which it plans to ramp up gradually to 1mtpa. Sterlite Industries has 64.92% stake in Hindustan Zinc, while 29.54% is owned by the Government of India. 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.

### Key investment arguments

- ☞ The company is expanding total smelting capacity from 750,000tpa to 1mtpa through de-bottlenecking and brownfield expansions by June 2010. 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 zinc prices would adversely impact earnings.

### Recent developments

- ☞ On 30 June 2009, cash & cash equivalents were Rs101b (Rs239/share).

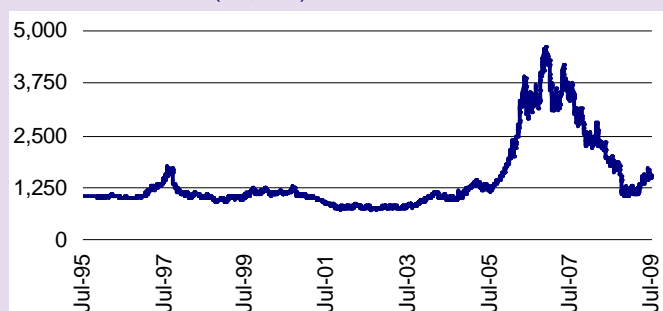
### Valuation and view

- ☞ The stock trades at P/BV of 1.6x FY10E (RoE of 16%). **Maintain Buy.**

### Sector view

- ☞ Zinc prices have trended lower due to easing of global supply, while production costs have increased worldwide on account of depreciation of the US\$ and rising energy costs. We believe downside to zinc prices in the long run is limited from the current levels.

LME ZINC SPOT PRICE (US\$/TON)



COMPARATIVE VALUATIONS

		HINDUSTAN ZINC	STLT	HNDL
P/E (x)	FY10E	10.3	18.7	27.8
	FY11E	9.2	14.5	18.8
P/BV (x)	FY10E	1.6	1.4	1.4
	FY11E	1.4	1.3	1.3
EV/Sales (x)	FY10E	2.9	2.3	0.6
	FY11E	2.3	1.9	0.5
EV/EBITDA (x)	FY10E	6.4	14.3	5.9
	FY11E	5.0	8.8	5.3

SHAREHOLDING PATTERN (%)

	JUN-09	MAR-09	JUN-08
Promoter	64.9	64.9	64.9
Domestic Inst	1.8	2.0	1.4
Foreign	1.6	1.5	2.4
Others	31.6	31.6	31.4

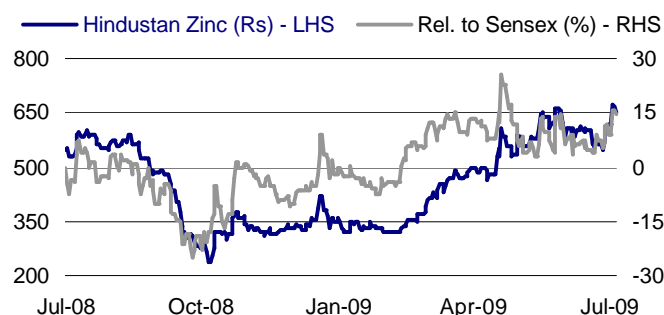
EPS: MOST FORECAST V/S CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY10	63.0	63.8	-1.2
FY11	71.0	79.8	-11.0

TARGET PRICE AND RECOMMENDATION

*CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
652	658	0.9	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(RS MILLION)				
Y/E MARCH	2007	2008	2009	2010E	2011E	
<b>Net Sales</b>	<b>85,602</b>	<b>78,778</b>	<b>57,660</b>	<b>56,899</b>	<b>62,027</b>	
Change (%)	120.8	-8.0	-26.8	-1.3	9.0	
Total Expenses	21,528	24,994	29,461	31,003	33,211	
<b>EBITDA</b>	<b>64,074</b>	<b>53,784</b>	<b>28,199</b>	<b>25,896</b>	<b>28,816</b>	
% of Net Sales	74.9	68.3	48.9	45.5	46.5	
Depn. & Amortization	1,566	2,205	2,853	2,992	4,035	
<b>EBIT</b>	<b>62,508</b>	<b>51,579</b>	<b>25,346</b>	<b>22,904</b>	<b>24,781</b>	
Net Interest	284	242	232	179	196	
Other Income	2,313	8,516	8,468	10,129	12,458	
<b>PBT before EO</b>	<b>64,537</b>	<b>59,853</b>	<b>33,583</b>	<b>32,854</b>	<b>37,042</b>	
EO Income						
<b>PBT after EO</b>	<b>64,537</b>	<b>59,853</b>	<b>33,583</b>	<b>32,854</b>	<b>37,042</b>	
Current tax	19,770	15,470	5,405	5,330	6,033	
Deferred tax	348	423	901	888	1,005	
Tax	20,119	15,893	6,306	6,218	7,038	
Rate (%)	31.2	26.6	18.8	18.9	19.0	
<b>Reported PAT</b>	<b>44,418</b>	<b>43,961</b>	<b>27,276</b>	<b>26,636</b>	<b>30,004</b>	
<b>Adjusted PAT</b>	<b>44,418</b>	<b>43,961</b>	<b>27,276</b>	<b>26,636</b>	<b>30,004</b>	
Change (%)	201.7	-1.0	-38.0	-2.3	12.6	

BALANCE SHEET		(RS MILLION)				
Y/E MARCH	2007	2008	2009	2010E	2011E	
Share Capital	4,225	4,225	4,225	4,225	4,225	
Reserves	72,045	114,257	139,555	164,214	192,236	
<b>Net Worth</b>	<b>76,271</b>	<b>118,482</b>	<b>143,781</b>	<b>168,439</b>	<b>196,461</b>	
Total Loans	4	4	4	4	4	
Deferred Tax Liability	3,006	4,597	6,489	8,354	10,466	
<b>Capital Employed</b>	<b>79,281</b>	<b>123,083</b>	<b>150,273</b>	<b>176,797</b>	<b>206,931</b>	
Gross Block	34,998	51,818	64,143	64,143	93,357	
Less: Accum. Deprn.	12,642	14,846	17,699	20,409	24,444	
<b>Net Fixed Assets</b>	<b>22,356</b>	<b>36,972</b>	<b>46,444</b>	<b>43,734</b>	<b>68,913</b>	
Capital WIP	6,350	4,655	4,655	21,719	4,655	
Investments	44,033	63,325	83,849	96,071	117,739	
<b>Curr. Assets</b>	<b>14,810</b>	<b>27,116</b>	<b>23,846</b>	<b>23,762</b>	<b>24,327</b>	
Inventory	4,993	5,181	3,419	3,374	3,678	
Account Receivables	5,566	4,437	2,928	2,889	3,150	
Cash and Bank Balance	1,197	13,628	13,628	13,628	13,628	
Others	3,054	3,871	3,871	3,871	3,871	
<b>Curr. Liability &amp; Prov.</b>	<b>8,268</b>	<b>8,984</b>	<b>8,520</b>	<b>8,489</b>	<b>8,702</b>	
Account Payables	2,065	3,547	2,341	2,310	2,518	
Provisions & Others	6,202	5,438	6,179	6,179	6,184	
<b>Net Current Assets</b>	<b>6,542</b>	<b>18,132</b>	<b>15,326</b>	<b>15,273</b>	<b>15,625</b>	
<b>Appl. of Funds</b>	<b>79,281</b>	<b>123,083</b>	<b>150,273</b>	<b>176,797</b>	<b>206,931</b>	

E: MOSL Estimates

RATIOS						
Y/E MARCH	FY07	FY08	FY09	FY10E	FY11E	
<b>Basic (Rs)</b>						
<b>EPS</b>	<b>105.1</b>	<b>104.0</b>	<b>64.6</b>	<b>63.0</b>	<b>71.0</b>	
Cash EPS	108.8	109.3	71.3	70.1	80.6	
BV/Share	180.5	280.4	340.3	398.6	465.0	
DPS	5.0	5.0	4.0	4.0	4.0	
Payout (%)	5.5	5.6	7.2	7.4	6.6	
<b>Valuation (x)</b>						
P/E	6.2	6.3	10.1	10.3	9.2	
Cash P/E	6.0	6.0	9.1	9.3	8.1	
P/BV	3.6	2.3	1.9	1.6	1.4	
EV/Sales	2.7	2.5	3.1	2.9	2.3	
EV/EBITDA	3.6	3.7	6.3	6.4	5.0	
Dividend Yield (%)	0.8	0.8	0.6	0.6	0.6	
<b>Return Ratios (%)</b>						
EBITDA Margins (%)	74.9	68.3	48.9	45.5	46.5	
Net Profit Margins (%)	51.9	55.8	47.3	46.8	48.4	
RoE	58.2	37.1	19.0	15.8	15.3	
RoCE	78.8	41.9	16.9	13.0	12.0	
RoIC	155.3	91.3	42.8	40.9	28.3	
<b>Growth (%)</b>						
Sales	120.8	-8.0	-26.8	-1.3	9.0	
EBITDA	178.4	-16.1	-47.6	-8.2	11.3	
PAT	201.7	-1.0	-38.0	-2.3	12.6	
<b>Leverage Ratio (x)</b>						
Current Ratio	1.8	3.0	2.8	2.8	2.8	
Interest Cover Ratio	219.8	213.4	109.3	128.0	126.4	
Debt/Equity	0.0	0.0	0.0	0.0	0.0	
<b>CASHFLOW STATEMENT</b>		<b>(RS MILLION)</b>				
Y/E MARCH	2007	2008	2009	2010E	2011E	
Pre-tax profit	64,537	59,853	33,583	32,854	37,042	
Depreciation	1,566	2,205	2,853	2,992	4,035	
(Inc)/Dec in Wkg. Cap.	977	841	2,806	53	-352	
Tax paid	-19,770	-15,470	-5,405	-5,330	-6,033	
Other operating activities	-548	1,267	249	696	1,101	
<b>CF from Op. Activity</b>	<b>46,761</b>	<b>48,697</b>	<b>34,085</b>	<b>31,265</b>	<b>35,794</b>	
(Inc)/Dec in FA + CWIP	-10,870	-15,125	-12,325	-17,064	-12,150	
(Pur)/Sale of Investments	-27,984	-19,292	-20,524	-12,223	-21,667	
<b>CF from Inv. Activity</b>	<b>-38,854</b>	<b>-34,416</b>	<b>-32,849</b>	<b>-29,287</b>	<b>-33,817</b>	
Debt Raised/(Repaid)	-5,576					
Dividend (incl. tax)	-1,874	-1,850	-1,236	-1,977	-1,977	
<b>CF from Fin. Activity</b>	<b>-7,450</b>	<b>-1,850</b>	<b>-1,236</b>	<b>-1,977</b>	<b>-1,977</b>	
<b>(Inc)/Dec in Cash</b>	<b>457</b>	<b>12,431</b>	<b>0</b>	<b>0</b>	<b>0</b>	
Add: opening Balance	740	1,197	13,628	13,628	13,628	
<b>Closing Balance</b>	<b>1,197</b>	<b>13,628</b>	<b>13,627</b>	<b>13,628</b>	<b>13,627</b>	

**N O T E S**



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**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 |

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