

26<sup>th</sup> July 2007

## Not rated

Price	Target Price
<b>Rs760</b>	<b>N.A</b>

Sensex – 15,669

### Price Performance

(%)	1M	3M	6M	12M
Absolute	4	12	0	42
Rel. to Sensex	(4)	1	(10)	(6)

Source: Bloomberg

### Stock Details

Sector	Metals & Mining
Reuters	HZNC.BO
Bloomberg	HZ@IN
Equity Capital (Rs mn)	4225
Face Value (Rs )	10
52 Week H/L (Rs )	1,021/505
Market Cap (Rs bn)	320.9
Daily Avg Vol (No of shares)	271055
Daily Avg Turnover (USD mn)	4.8

### Shareholding Pattern (%)

(30th Jun.'07)

Promoters	64.9
FII/NRI	2.1
Institutions	1.1
Private Corp.	0.6
Public	31.4

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## Robust 1QFY08 results

Hindustan Zinc (HZL) reported strong 1QFY08 results. The company reported net sales of Rs19.7bn (yoy up 22%, qoq down 3%), EBITDA of Rs14.36bn (yoy up 15%, qoq up 3%) and PAT of Rs11.85bn (yoy up 36%, qoq up 27%). The expansion projects are currently on track. We continue to have a positive view on the zinc cycle and remain positive on Hindustan Zinc.

HZL reported robust 1QFY08 results. The strong performance comes due to strong volume growth as well as a modest gain of the metal at LME. Average Zinc price for the quarter stood at USD3685/t as compared to USD3275/t (yoy growth of 12.5%) and USD3462/t (qoq growth of 6.4%) The company also reported other income of Rs2.7bn of which Rs1.3bn was on account of reversal of excess royalty provision and balance being investment income.

### Production remains robust, zinc mine production hits all time high

The mine metal production was highest ever at 134,339t. The company continuously exploring the Rampura Agucha mines further to enhance the mine reserves. We expect positive results from this activity also.

### Production details

	1QFY08	1QFY07	% yoy	4QFY07	%qoq
Mined Metal Production (t)					
Zinc	134,339	131,374	2.3%	121,423	10.6%
Lead	19,442	17,885	8.7%	17,562	10.7%
Refined Metal production (t)					
Zinc	92,631	82,240	12.6%	94,856	-2.3%
Lead	13,651	10,517	29.8%	14,757	-7.5%
Sale of Zinc Concentrate (DMT)	54,835	63,302	29.80%	70,301	-22.00%
Lead	13,651	10,517	29.8%	14,757	-7.5%
Zinc Price at LME (USD/t)	3,685	3,275	12.5%	3,462	6.4%

Source: Company

### Metal prices remain firm in this quarter

Zinc and lead prices have remained strong this quarter. Average zinc price during the quarter was USD3,685/t (yoy up 12.5%, qoq up 6.4%). Lead price have risen sharply in this quarter due to increase in demand for batteries (the main end use of lead), mine disruptions and investments by hedge funds. Fundamentally, lead looks strong due to growing car production in China, which translates into rising demand for lead.

### Prices and warehouse stocks at LME during the quarter

	1QFY08	1QFY07	% yoy	4QFY07	%qoq
Avg Zinc price (USD/t)	3,685	3,275	12.5%	3,462	6.4%
Avg Zinc stocks at LME (t)	87,067	249,571	-65.1%	97,666	-10.9%
Avg Lead price (USD/t)	2,176	1,100	97.8%	1,781	22.2%
Avg Lead stocks at LME (t)	42,838	103,620	-58.7%	35,956	19.1%

As of 25<sup>th</sup> July, Zinc closed at USD3,674/t and Lead closed at USd3,179/t. Stocks at LME have come down to 66,600t for zinc and are at 39,450 for lead, reflecting tightening inventory situation for both these metals.

## Project status

HZL has embarked upon a number of projects that will expand its capacity and further reduce its costs.

Project detail	Total capex	Initial Date of completion	Revised date of completion
Chanderiya –II expansion			
- 170kt zinc smelter			Dec 2007
- 80MW CPP	USD300mn		Completion date
- Mine expansion by further 1mtpa	(Rs12.15bn)	March 2008	advanced by a quarter
Debottlenecking			
- 88,000t zinc smelter at Chanderiya and Debari	USD170mn		Same as initial target date
- 80MW CPP at Zawar mines	(Rs6.885bn)	Mid 2008	
Wind Energy			
- 148.8MW of which			
- 38.4MW already commissioned in March'07			
- 110.4MW already under progress	USD100mn		Same as initial target date
Orders placed for balance equipment	(Rs4bn)	June 2008	

Source: Company

## Allocation of coal mine

HZL has been allocated a coalmine in consortium with 5 other companies. The share of HZL in the total coal reserves stands at 32mt. The company expects 2-3 years before mining can be started

## Outlook

With shrinking inventory at LME and robust growth expectations, we expect prices at LME to remain firm. Further, Hindustan Zinc's expansion plans are on target, which will increase the zinc smelting capacity significantly. HZL is setting up 170,000tpa zinc smelter and 80MW CPP at its Chanderiya Smelter. Further it is also adding 88,000tpa capacity through debottlenecking and setting up another 88MW CPP. Post completion of these expansion plans, the zinc smelting capacity is likely to go up by 65% of the existing capacity. We expect further reduction in costs as the company continues to increase its operational efficiency and reduces its power cost by setting up captive power plants.

## Quarterly results summary

	1QFY08	1QFY07	% yoy	4QFY07	% qoq
Mined Metal Production (t)					
Zinc	134,339	131,374	2.3%	121,423	10.6%
Lead	19,442	17,885	8.7%	17,562	10.7%
Refined Metal production (t)					
Zinc	92,631	82,240	12.6%	94,856	-2.3%
Lead	13,651	10,517	29.8%	14,757	-7.5%
Concentrate sale (DMT)	54,835	63,302	29.8%	70,301	-22.0%
Zinc Price (USD/t)	3,685	3,275	12.5%	3,462	6.4%
<b>Net Sales</b>	<b>19,700</b>	<b>16,100</b>	<b>22.4%</b>	<b>20,210</b>	<b>-2.5%</b>
Expenditure					
Manufacturing & Mining Exp	2,920	2,960	-1.4%	2,710	7.7%
Change in stock	-470	-1,850	-74.6%	420	-211.9%
Net Manufacturing & Mining Exp	2,450	1,110	120.7%	3,130	-21.7%
<b>Gross profit</b>	<b>17,250</b>	<b>14,990</b>	<b>15.1%</b>	<b>17,080</b>	<b>1.0%</b>
<b>Gross margin</b>	<b>87.60%</b>	<b>93.10%</b>	<b>-554bps</b>	<b>84.50%</b>	<b>305bps</b>
Mining Royalty	1,490	1,510	-1.3%	1,510	-1.3%
Employee Cost	650	650	0.0%	690	-5.8%
Other selling & admin Exp	750	390	92.3%	880	-14.8%
Total operating exp	2,890	2,550	13.3%	3,080	-6.2%
<b>EBITDA</b>	<b>14,360</b>	<b>12,440</b>	<b>15.4%</b>	<b>14,000</b>	<b>2.6%</b>
<b>Ebitda margin</b>	<b>72.9%</b>	<b>77.30%</b>	<b>-437bps</b>	<b>69.30%</b>	<b>362bps</b>
Depreciation & amortization	450	370	21.60%	450	0.00%
<b>EBIT</b>	<b>13910</b>	<b>12070</b>	<b>15.0%</b>	<b>13,550</b>	<b>3.0%</b>
<b>EBIT margin</b>	<b>70.6%</b>	<b>75.00%</b>	<b>-436bps</b>	<b>67.00%</b>	<b>356bps</b>
Interest	70	270	-74.1%	20	250.0%
Other income	2,700	470	474.5%	740	264.9%
PBT	16,540	12,270	34.8%	14,270	15.9%
Provision for tax	4,690	3,530	32.9%	4,920	-4.7%
ETR (%)	28%	29%	-41bps	34%	-612bps
Current tax	4,410	3,480		4,610	
Deferred tax liability	280	50		310	
Fringe benefit tax	-	-		-	
<b>PAT</b>	<b>11,850</b>	<b>8,740</b>	<b>35.6%</b>	<b>9,350</b>	<b>26.7%</b>
<b>Net margin</b>	<b>60.2%</b>	<b>54.3%</b>	<b>587bps</b>	<b>46.3%</b>	<b>1389bps</b>
Equity capital	4,230	4,230		4,230	
Reported EPS	28.05	20.68	36.0%	22.12	27.0%

## Common Size Ratios

	1QFY08	1QFY07	bps yoy	4QFY07	bps qoq
Sales	100.0%	100.0%	-	100.0%	-
Manufacturing & Mining Exp	14.8%	18.4%	-356 bps	13.4%	141 bps
Change in stock	-2.4%	-11.5%	910 bps	2.1%	-446 bps
Mining Royalty	7.6%	9.4%	-182 bps	7.5%	9 bps
Employee Cost	3.3%	4.0%	-74 bps	3.4%	-11 bps
Othr selling & administrative Exp	3.8%	2.4%	138 bps	4.4%	-55 bps
EBITDA	72.9%	77.3%	-437 bps	69.3%	362 bps
Depreciation & amortization	2.3%	2.3%	-1 bps	2.2%	6 bps
Interest	0.4%	1.7%	-132 bps	0.1%	26 bps
Other income	13.7%	2.9%	1079 bps	3.7%	1004 bps
Provision for tax	84.0%	76.2%	775 bps	70.6%	1335 bps
PAT	60.2%	54.3%	587 bps	46.3%	1389 bps

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