

Hindustan Zinc Ltd – BUY

CMP Rs1,185, Target Rs1,319

Sector: Metals & Mining

Sensex:	16,860
CMP (Rs):	1,185
Target price (Rs):	1,319
Upside (%):	11.3
52 Week h/l (Rs):	1325 / 303
Market cap (Rscr) :	50,064
6m Avg vol ('000Nos):	277
No of o/s shares (mn):	423
FV (Rs):	10

Bloomberg code:	HZ IB
Reuters code:	HZNC.BO
BSE code:	500188
NSE code:	HINDZINC

Prices as on 22 Jan, 2010

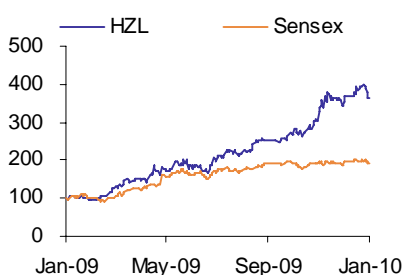
Shareholding pattern

December '09	(%)
Promoters	64.9
Institutions	33.1
Non promoter corp hold	0.8
Public & others	1.1

Performance rel. to sensx

(%)	1m	3m	1yr
HZL	3.7	36.0	170.4
Sterlite	0.5	(0.1)	144.2
Hindalco	12.6	16.3	178.8
NALCO	11.3	17.1	28.5

Share price trend



- ✦ Revenue jumps 21.9% qoq to Rs22.2bn led by higher realisations
- ✦ Metal production growth remained strong at 5.8% qoq; whereas sales of concentrate declined 5.5% qoq
- ✦ Increase in royalty outgo restricted OPM expansion to 192bps qoq
- ✦ Cash and cash equivalents stood at Rs107bn (Rs253 per share)
- ✦ Maintain BUY with a target price of Rs1,319

Result table

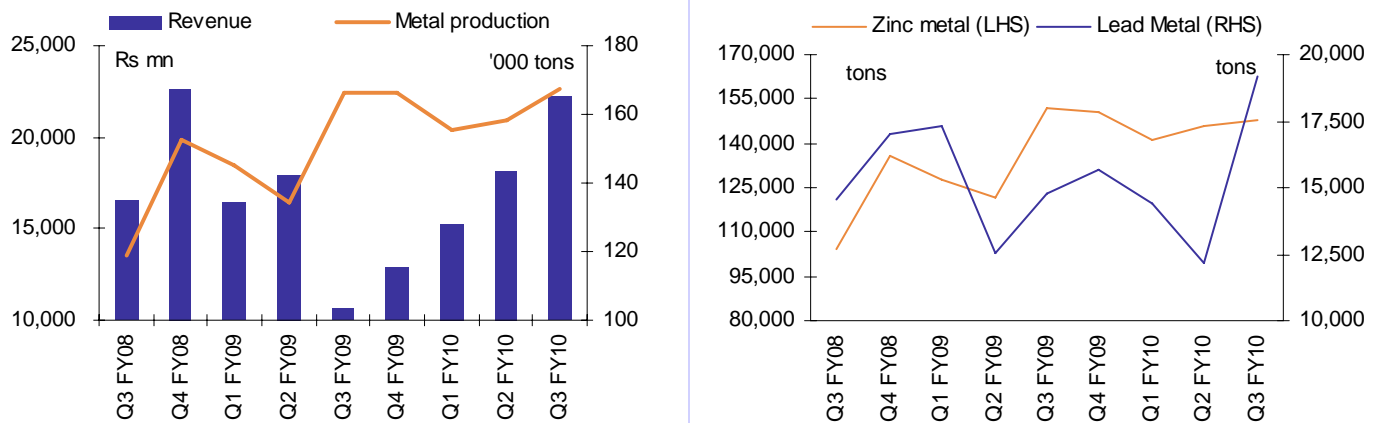
(Rs m)	Q3 FY10	Q2 FY10	% qoq	Q3 FY09	% yoy
Net sales	22,167	18,183	21.9	10,692	107.3
Mining & manufacturing	(6,475)	(5,777)	12.1	(5,817)	11.3
Personnel costs	(1,379)	(1,037)	33.0	(1,065)	29.5
Other overheads	(777)	(615)	26.4	(760)	2.2
Operating profit	13,537	10,755	25.9	3,051	343.7
OPM (%)	61.1	59.1	192 bps	28.5	3,254 bps
Depreciation	(817)	(771)	6.0	(712)	14.8
Interest	(77)	(54)	42.4	(44)	76.1
Other income	1,319	1,537	(14.2)	2,363	(44.2)
PBT	13,962	11,467	21.8	4,658	199.8
Tax	(2,799)	(2,118)	32.2	(969)	188.8
Effective tax rate (%)	20.1	18.5		20.8	
Adjusted PAT	11,162	9,350	19.4	3,688	202.7
Adj. PAT margin (%)	50.4	51.4	(106) bps	34.5	1,586 bps
Ann. EPS (Rs)	105.7	88.5	19.4	34.9	202.7

Source: Company, India Infoline Research

Revenue growth of 21.9% qoq was higher than estimate

Hindustan Zinc Ltd's (HZL) topline of Rs22.1bn in Q3 FY10 was higher than our estimate. The outperformance in revenue was on account of higher metal sales volume. Growth in total refined metal production was at 5.8% qoq at 167,317 tons, this was among the highest quarterly metal production for the company. Sales of surplus zinc and lead concentrate fell by 5.5% qoq to 40,972 dry metric tons against sales of 43,359 dry metric tons in Q2 FY10 and 25,055 dry metric tons in the corresponding quarter previous year. During the quarter, the company managed to register its highest ever zinc and lead mined metal production of 199,729 tons. Average LME price for zinc during the quarter was higher by 25.8% qoq to US\$2,240/ton, whereas on a yoy basis it was almost double from last year's average of US\$1,189/ton. LME average price for lead was US\$2,306, a rise of 18.9% qoq and 84.3% on a yoy basis. During the quarter production of silver increased 17.5% qoq to 35,633 kilograms.

Quarterly revenue and metal production trends

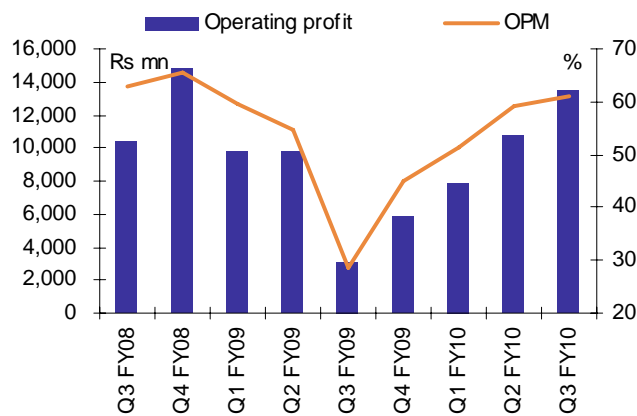


Source: Company, India Infoline Research

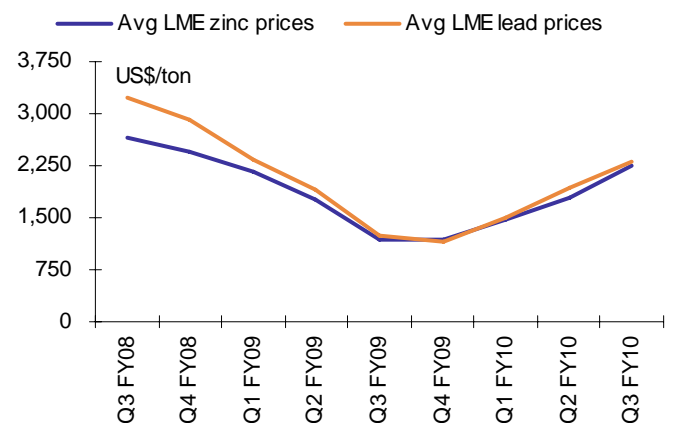
Increase in royalty outgo restricted the expansion in OPM to 192bps qoq

HZL managed to register a growth of 25.9% qoq in operating profit to Rs13.5bn on the back of higher OPM. The expansion in OPM was on account of higher metal realisations and input costs remaining constant. Excluding royalty, mining and manufacturing costs per ton of refined metal were flat at Rs28,334 in Q3 FY10 against Rs28,795 in Q2 FY10. Whereas on a yoy basis, it was lower by 11.1%. Mining and manufacturing costs as a % of sales declined 256bps qoq to 29.2% in Q3 FY10. Royalty per ton of mined metal increased from Rs7,196/ton in Q2 FY10 to Rs9,599/ton in Q3 FY10 inline with the rise in metal realisations and on account of the full impact of the increase in royalty rates. The Government of India had increased the royalty on zinc mining from 6.6% to 8.4% of zinc price. Staff costs too jumped 33% qoq to Rs1,379mn during the quarter due to long term settlement of wage agreement effective July '07.

Quarterly operating profit trend



LME metal price trend



Source: Company, Bloomberg, India Infoline Research

Cost analysis

As a % of net sales	Q3 FY10	Q2 FY10	bps qoq	Q3 FY09	bps yoy
Mining & manufacturing	29.2	31.8	(256)	54.4	(2,519)
Personnel costs	6.2	5.7	52	10.0	(374)
Other overheads	3.5	3.4	12	7.1	(360)
Total costs	38.9	40.9	(192)	71.5	(3,254)

Source: Company, India Infoline Research

Lower other income and higher depreciation restricts the PAT growth to 19.4% qoq

HZL's current net cash balance rose from Rs102bn at the end of Q2 FY10 to Rs107bn in Q3 FY10. Of the total cash equivalents, Rs10.2bn is invested in debt mutual funds and Rs0.5bn is in fixed deposits with banks. The fall in other income on qoq basis was due to decline in interest rates. Tax rate during the quarter for the company increased to 20.1% from 18.5% in Q2 FY10. Depreciation during the quarter increased 6% qoq. PAT during the quarter was Rs11.2bn, an increase of 19.4% qoq and 202.7% yoy.

Best play on the commodity rally; Maintain BUY

HZL is set to become the world's largest integrated zinc-lead producer by mid-2010. The company is fully integrated with captive mines and power plants, which places it in the lower quartile of the global cost curve. We believe that HZL will be amongst the biggest beneficiaries of the strong commodity prices among the Indian metal companies. We have revised upwards our earnings estimate by 19% and 4.4% in FY10E and FY11E respectively incorporating the revision in commodity price estimate. We expect HZL to report earnings CAGR of 25.8% for FY09-12E and net cash per share to double from Rs236 to Rs460 during the same period. We feel that the stock should trade at par with its international peers on account of the size and the integrated operations of the company. We maintain our BUY recommendation with a target price of Rs1,319.

Financial summary

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Revenues	56,803	77,632	95,813	107,687
yoy growth (%)	(27.9)	36.7	23.4	12.4
Operating profit	27,342	46,645	57,752	65,950
OPM (%)	48.1	60.1	60.3	61.2
Pre-exceptional PAT	27,276	40,987	48,344	54,361
Reported PAT	27,276	40,987	48,344	54,361
yoy growth (%)	(38.0)	50.3	17.9	12.4
EPS (Rs)	64.6	97.0	114.4	128.7
P/E (x)	18.4	12.2	10.4	9.2
Price/Book (x)	3.5	2.7	2.2	1.8
EV/EBITDA (x)	14.8	8.1	6.1	4.6
Debt/Equity (x)	0.0	0.0	0.0	0.0
RoE (%)	20.8	25.1	23.6	21.5
RoCE (%)	24.8	30.8	29.0	26.6

Source: Company, India Infoline Research

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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