

- **Robust realizations and improved volumes boost revenues by 120.1% during FY07**
- **Operating margins soar to 74.8% for FY07 and net margins jump to 51.9%**
- **Bottomline explodes by 201.8% for FY07, however is subdued for Q4FY07**

**Financials Highlights**

Period to	03/07	03/06	y-o-y Growth	q-o-q Growth	03/07	03/06	y-o-y Growth
<b>Rs mn</b>	<b>(3)</b>	<b>(3)</b>	<b>(%)</b>	<b>(%)</b>	<b>(12)</b>	<b>(12)</b>	<b>(%)</b>
Sales	20,210	17,760	13.8	(18.5)	85,600	38,900	120.1
Expenditure	(6,210)	(5,170)	20.1	8.4	(21,530)	(15,890)	35.5
Operating profit	14,000	12,590	11.2	(26.6)	64,070	23,010	178.4
Other income	740	370	100.0	15.6	2,310	1,160	99.1
Interest	(20)	(30)	(33.3)	(118.2)	(280)	(470)	(40.4)
Depreciation	(450)	(380)	18.4	21.6	(1,560)	(1,410)	10.6
PBT	14,270	12,550	13.7	(26.6)	64,540	22,290	189.5
Tax	(4,920)	(4,530)	8.6	(19.3)	(20,120)	(7,570)	165.8
PAT	9,350	8,020	16.6	(30.0)	44,420	14,720	201.8
OPM (%)	69.3	70.9	(1.6)	(7.6)	74.8	59.2	15.7
Equity	4,230	4,230			4,230	4,230	
EPS (Rs) Annualized	88	76			105	35	
NPM (%)	46.3	45.2	1.1	(7.6)	51.9	37.8	14.1

**120% y-o-y growth in revenues for FY07**

Robust realizations coupled with increased production enabled the company to register a 120.1% jump in revenues for FY07 to Rs85.6bn against Rs38.9bn in the corresponding period last year. Average zinc and lead prices for the year stood at US\$3,581 per ton and US\$1,426 per ton respectively. Average prices were higher by 121.9% and 37% for zinc and lead respectively.

During the quarter the company recorded higher production of refined metals, zinc and lead by 3.6% and 33.2% respectively. Higher volumes were a result of increased output from the new hydro smelter and Rampura Agucha mine. Also during Q4FY07 and FY07 the company exported 70,301 tons and 313,299 tons of zinc and lead respectively.

**Production data**

Period to	03/07	03/06	y-o-y Growth	q-o-q Growth	03/07	03/06	y-o-y Growth
<b>(MT)</b>	<b>(3)</b>	<b>(3)</b>	<b>(%)</b>	<b>(%)</b>	<b>(12)</b>	<b>(12)</b>	<b>(%)</b>
Mined metal							
Zinc	121,423	125,318	(3.1)	(4.9)	504,956	472,194	6.9
Lead	17,562	16,607	5.8	1.4	67,364	59,677	12.9
Refined metal							
Zinc	94,856	91,588	3.6	2.3	348,316	282,668	23.2
Lead	14,757	11,075	33.2	7.1	50,187	24,727	103.0

Source: Company

**Average LME prices**

Average LME price	03/07	03/06	y-o-y Growth	q-o-q Growth	03/07	03/06	y-o-y Growth
US\$ per ton	(3)	(3)	(%)	(%)	(12)	(12)	(%)
Zinc	3,460	2,248	53.9	(17.5)	3,581	1,614	121.9
Lead	1,787	1,240	44.1	10.2	1,426	1,041	37.0

Source: Bloomberg

**Operating margins swell by 1570bps for FY07**

HZL experienced 1570bps expansion in operating margin during FY07 to 74.8% from 59.2% in the corresponding period last year. Margins for Q4FY07 margins were marginally lower at 69.3% against 70.9%. Expansion in margins was primarily due to higher realizations for both the metals during the year resulting into costs (as a percentage of sales) witnessing a drop. Mining and manufacturing expenses, as a percentage of sales, dropped to 11.5% during FY07 from 24.3% in FY06 leading to margin expansion.

**Cost break up**

Period to	03/07	03/06	y-o-y Growth	q-o-q Growth	03/07	03/06	y-o-y Growth
<b>As % of net sales</b>	<b>(3)</b>	<b>(3)</b>	<b>(%)</b>	<b>(%)</b>	<b>(12)</b>	<b>(12)</b>	<b>(%)</b>
Mining & Manufacturing exp	15.5	16.7	(1.2)	4.9	11.5	24.3	(12.8)
Mining Royalty	7.5	5.6	1.8	(0.3)	7.5	7.0	0.5
Staff cost	3.4	2.9	0.5	1.0	3.0	5.3	(2.3)
Admin, sell & other exp	4.4	3.8	0.5	2.0	3.1	4.2	(1.1)
Total	30.7	29.1	1.6	7.6	25.2	40.8	(15.7)

Source: Company

Cost of production of the metals for the company has reduced to US\$600 per ton from US\$800 per ton five years ago. This drop was due to continuous efforts involved in enhancing efficiencies, improving capacity utilization and lower power cost. During the quarter the company has awarded ESOPs to its employees, which has again led to rising employee costs. Also during the period administrative and other expenses rose due to rising transportation costs, which was fallout of rising exports.

**Bottomline inflates by 201.8%**

Effects of robust realizations and higher volumes trickled to the bottom during the year. The company registered a bottomline growth of 201.8% for FY07 to Rs44.4bn against Rs14.7bn in the corresponding period last year. However for Q4FY07 it registered a bottomline growth of 16.6% to Rs9.4bn against Rs8bn last year. This translates into full year earnings of Rs105. At Rs667 the stock is trading at 6.4x FY07 earnings.

**Outlook**

The outlook for zinc looks robust on the back of low global inventory, which is about 3-4 days consumption. LME inventory levels for the metal stand at about 50% of that in August 2006. We expect demand to outstrip supply resulting into zinc prices remaining at robust in the near future. However increase in metal inventory on the exchange will lead to softening in prices on the bourses.

In order to tap robust prices and cater to this huge demand supply gap, HZL has charted expansion plans with new 170,000tpa Chanderiya hydro smelter expected to be up and running during 2008. It will also be setting up a 80MW coal based thermal power plant at Zawar. The initial work for these projects has commenced and is expected to be complete during 2008. It commissioned a 38.4MW wind energy farm and is working on the remaining 84MW wind energy project, which is expected to commission during FY08. The cost for the project is about Rs4bn. In accordance with the above the company's 88,000 tons debottlenecking project at Chanderiya and Debari is also progressing as per schedule.

**Average LME prices**

(US\$ per ton)	Zinc	y-o-y growth (%)	q-o-q growth (%)	Lead	y-o-y growth (%)	q-o-q growth (%)
Q3FY06	1,637	51.9	(1.7)	1,047	9.9	(1.1)
Q4FY06	2,248	70.6	37.3	1,240	26.6	18.4
Q1FY07	3,301	159.9	46.9	1,095	11.0	(11.7)
Q2FY07	3,363	101.9	1.9	1,189	12.3	8.7
Q3FY07	4,194	156.2	24.7	1,622	54.9	36.4
Q4FY07	3,460	53.9	(17.5)	1,787	44.1	10.1

Source: Bloomberg

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