

April 23, 2011

Hindustan Zinc

Performance Highlights

Particulars (₹ cr)	4QFY11	4QFY10	% chg (yoy)	3QFY11	% chg (qoq)
Net sales	3,197	2,498	28.0	2,601	22.9
EBITDA	1,969	1,548	27.1	1,507	30.6
EBITDA margin (%)	61.6	62.0	(39)bp	57.9	363bp
Net profit	1,771	1,239	43.0	1,290	37.4

Source: Company, Angel Research

For 4QFY2011, Hindustan Zinc's (HZL) net revenue at ₹3,197cr was substantially higher than our estimate of ₹2,724cr. Net profit at ₹1,771cr was also above our estimate of ₹1,368cr. The deviation was mainly due to higher-than-expected zinc, lead and silver sales volume and other income.

Impressive performance in 4QFY2011: HZL's net revenue grew by 28.0% yoy and 22.9% qoq to ₹3,197cr on account of higher sales volume and realisation. Although lead volumes fell by 11.3% yoy to 16kt, zinc volumes grew by 28.6% yoy to 194kt (up 32.6% and 9.0%, respectively, on a sequential basis). Silver sales volume increased by 4.5% yoy and 50.1% qoq to 44,325kg, while zinc and lead concentrate sales stood at 48,000dmt. Silver realisation increased by 89.4% yoy and 24.9% qoq to ₹49,197/kg. Thus, led by strong top-line growth, EBITDA grew by 30.6% qoq and 27.1% yoy to ₹1,969cr, as margins expanded by 363bp qoq to 61.6%, though flat on a yoy basis. Further, other income grew by 125% yoy and 46.1% qoq to ₹302cr and tax rate came in lower at 16.9%, which resulted in net profit growing by 43.0% yoy and 37.4% qoq to ₹1,771cr.

Outlook and valuation: Currently, the stock is trading at 6.5x FY2012E and 5.2x FY2013E EV/EBITDA. HZL is expected to benefit from the expansion of zinc-lead smelting capacity and increased silver production. Further, HZL had a huge cash balance of ₹14,965cr as of March 31, 2011 (₹35 per share). **We maintain our Neutral rating on the stock.**

Key financials

Y/E March (₹ cr)	FY2010	FY2011E	FY2012E	FY2013E
Net sales	8,017	9,912	11,748	12,560
% chg	41.1	23.6	18.5	6.9
Net profit	4,041	4,900	5,999	6,452
% chg	48.2	21.3	22.4	7.6
EPS (₹)	9.6	11.6	14.2	15.3
EBITDA margin (%)	58.3	55.4	56.4	56.8
P/E (x)	15.9	13.1	10.7	10.0
P/BV (x)	3.5	2.8	2.3	1.9
RoE (%)	24.9	24.0	23.6	20.6
RoCE (%)	25.6	24.3	23.8	21.0
EV/Sales (x)	6.5	4.9	3.6	2.9
EV/EBITDA (x)	11.2	8.8	6.5	5.2

Source: Company, Angel Research; Note: Price as on April 21, 2011

NEUTRAL

CMP	₹152
Target Price	-

Investment Period	-
-------------------	---

Stock Info	
Sector	Base Metals
Market Cap (₹ cr)	64,203
Beta	1.1
52 Week High / Low	155/90
Avg. Daily Volume	78009
Face Value (₹)	2
BSE Sensex	19,602
Nifty	5,885
Reuters Code	HZNC.BO
Bloomberg Code	HZ@IN

Shareholding Pattern (%)	
Promoters	64.9
MF / Banks / Indian Fls	31.5
FII / NRIs / OCBs	1.5
Indian Public / Others	2.1

Abs. (%)	3m	1yr	3yr
Sensex	3.1	12.2	17.1
Hindustan Zinc	13.7	23.3	159.5

Bhavesh Chauhan

Tel: 022- 39357800 Ext: 6821

bhaveshu.chauhan@angelbroking.com

Pooja Jain

Tel: 022- 39357800 Ext: 6839

pooja.j@angelbroking.com

Exhibit 1: 4QFY2011 performance

(₹ cr)	4QFY11	4QFY10	yoy %	FY2011	FY2010	yoy %
Net sales	3,197	2,498	28.0	9,912	8,017	23.6
Mining and mfg. expenses	771	566	36.1	2,754	1,961	40.4
% of Net sales	24.1	22.7		27.8	24.5	
Mining royalty	251	191	31.7	803	613	31.1
% of Net sales	7.9	7.6		8.1	7.6	
Staff cost	134	135	(0.8)	511	457	11.7
% of Net sales	4.2	5.4		5.2	5.7	
Admin and selling	113	105	7.8	349	316	10.4
% of Net sales	3.5	4.2		3.5	3.9	
Total expenditure	1,269	997	27.3	4,416	3,347	32.0
% of Net sales	39.7	39.9		44.6	41.7	
Operating income	40	46	(13.2)	127	122	4.3
EBITDA	1,969	1,548	27.1	5,623	4,792	17.3
% margin	61.6	62.0		55.4	58.3	
Interest	13	28	(52.1)	19	44	(55.8)
Depreciation	127	101	26.3	475	334	42.0
Other income	302	134	125.0	852	600	41.9
Exceptional items	-	-		21	-	
Profit before tax	2,131	1,554	37.1	5,960	5,014	18.9
% of Net sales	66.6	62.2		60.1	62.5	
Provision for tax	359	315	14.0	1,059	973	8.9
% of PBT	16.9	20.3		17.8	19.4	
Profit after tax	1,771	1,239	43.0	4,900	4,041	21.3
% of Net sales	55.4	49.6		49.4	50.4	

Source: Company, Angel Research

Exhibit 2: 4QFY2011 – Actual vs. Angel estimates

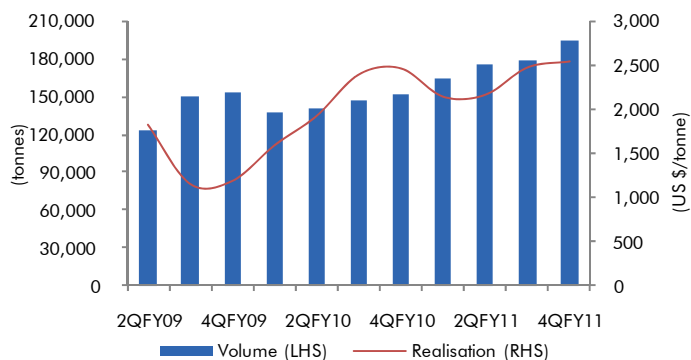
(₹ cr)	Actual	Estimates	chg (%)
Net sales	3,197	2,724	17.4
EBITDA	1,969	1,588	23.9
EBITDA margin (%)	61.6	58.3	326bp
PBT	2,131	1,694	25.8
PAT	1,771	1,368	29.5

Source: Company, Angel Research

Top line grew on account of higher sales volume

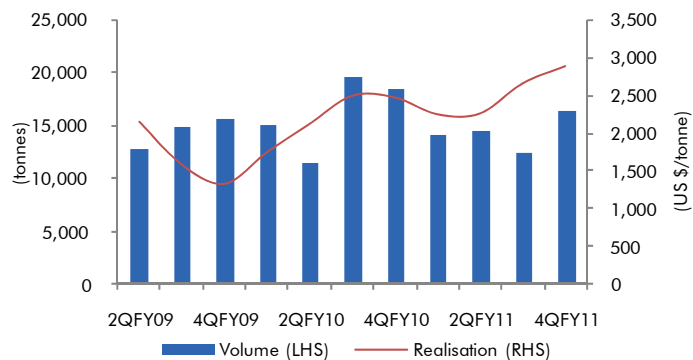
In 4QFY2011, HZL's mined zinc production was higher by 19.4% yoy and 2.8% qoq to 203,860 tonnes. Zinc metal sales volume grew by 28.6% yoy and 9.0% qoq to 194kt on account of increased contribution from Dariba Hydro zinc smelter, which produced 46,000 tonnes. However, lead metal sales volume declined by 11.3% yoy to 16kt (up 32.6% qoq). Despite saleable silver production being flat yoy at 42,789kg (up 30.5% qoq), silver sales volumes grew by 4.5% yoy and 50.1% qoq to 44,325kg.

Exhibit 3: Zinc metal sales volume grew by 28.6% yoy



Source: Company, Angel Research

Exhibit 4: Lead metal sales volume fell by 11.3% yoy



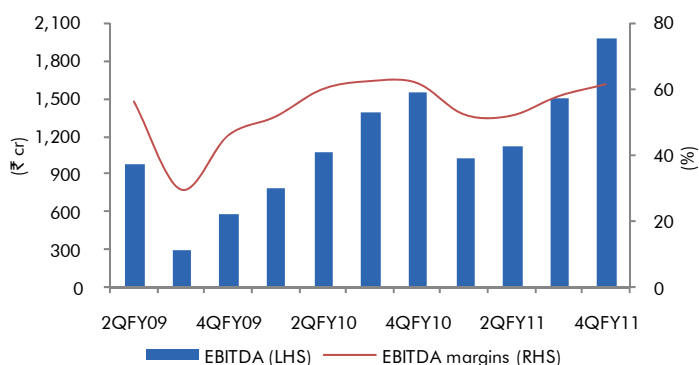
Source: Company, Angel Research

In 4QFY2011, silver realisation was substantially higher by 89.4% yoy and 24.9% qoq at ₹49,197/kg. On a yoy basis, zinc and lead realisations registered growth of 3.2% and 16.7% to US\$2,540/tonne and US\$2,886/tonne, respectively. Sequentially, zinc and lead realisations grew by 2.7% and 8.6%, respectively. Thus, aided by strong sales volumes and higher realisations, net revenue grew by 28.0% yoy and 22.9% qoq to ₹3,197cr.

Operating performance

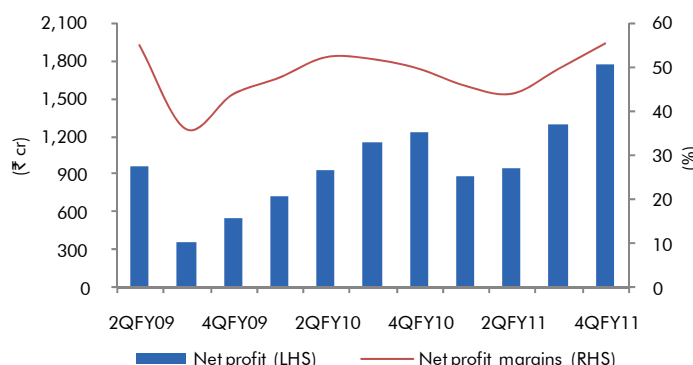
Led by strong top-line growth, EBITDA grew by 30.6% qoq and 27.1% yoy to ₹1,969cr, as margins expanded by 363bp qoq to 61.6%, though flat on a yoy basis. Further, other income grew by 125% yoy and 46.1% qoq to ₹302cr and tax rate came in lower at 16.9%, which resulted in net profit growing by 43.0% yoy and 37.4% qoq to ₹1,771cr.

Exhibit 5: EBITDA margins flat yoy



Source: Company, Angel Research

Exhibit 6: PAT grew by 43.0% yoy



Source: Company, Angel Research

Expansion projects

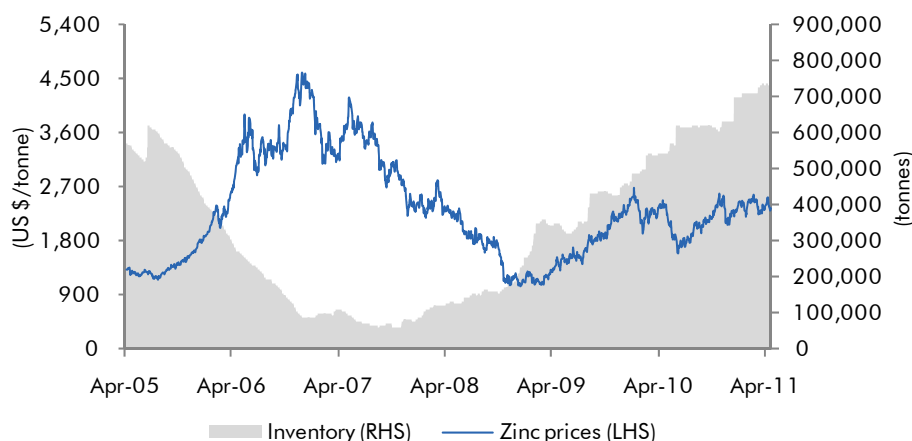
- The 100ktpa lead smelter at Rajpura Dariba has again been delayed by a quarter and is expected to be commissioned by 1QFY2012E.
- During the quarter, HZL commissioned 48MW of the 150MW wind power plant. The remaining 102MW is expected to be commissioned in FY2012.
- The company's reserves and resources as of March 31, 2011, stood at 313.2mn tonnes (increase of 22.1mn tonnes in FY2011), containing 34.7mn tonnes of zinc and lead metal and 885mn ounces of silver.

Outlook

Global zinc metal market likely to remain in surplus

As per ILZSG, global zinc usage is expected to grow by 6.3% to 13.4mn tonnes in CY2011. Refined zinc production is expected to grow by 5.6% to 13.6mn tonnes in CY2011. Hence, global zinc metal supply is likely to remain in surplus for the fifth successive year by over 200,000 tonnes in CY2011E.

Exhibit 7: Zinc prices and inventory levels

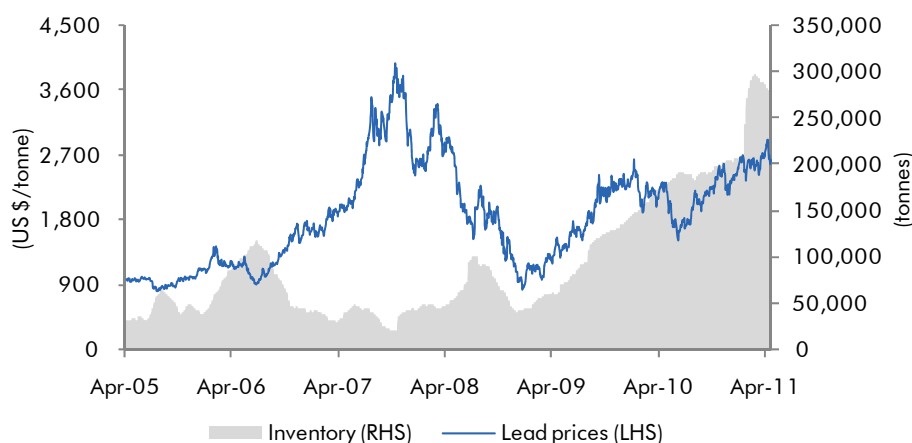


Source: Bloomberg, Angel Research

Lead – Metal surplus at 123,000 tonnes

As per ILZSG, global lead usage is expected to grow by 5.5% yoy to 10.0mn tonnes in CY2011E. However, lead production is also expected to grow by 6.1% yoy to 10.2mn tonnes. Hence, lead metal is expected to remain in surplus by 123,000 tonnes in CY2011E.

Exhibit 8: Lead prices and inventory levels



Source: Bloomberg, Angel Research

Valuation

Currently, the stock is trading at 6.5x FY2012E and 5.2x FY2013E EV/EBITDA. We expect HZL to benefit from the expansion of zinc-lead smelting capacity and increased silver production during FY2012–13. Further, HZL had a huge cash balance of ₹14,965cr as of March 31, 2011 (₹35 per share). However, we believe the current price discounts the above-mentioned positives. Hence, **we maintain our Neutral rating on the stock.**

Exhibit 9: Key assumptions

LME prices (US\$/tonne)	Earlier		Revised	
	FY12E	FY13E	FY12E	FY13E
Zinc	2,200	2,250	2,300	2,300
Lead	2,200	2,250	2,500	2,500
Silver (₹/kg)	30,000	32,000	60,000	60,000
Sales volume (tonnes)				
Zinc metal	791,100	830,655	747,150	830,655
Lead metal	86,850	91,193	86,850	91,193
Silver	225,000	225,000	225,000	225,000

Source: Angel Research

We have slightly raised our FY2012 and FY2013 estimates to factor in increased zinc, lead and silver price realisations. However, we have broadly maintained our sales volume estimates for FY2012 and FY2013.

Exhibit 10: Change in estimates

(₹ cr)	Earlier estimates		Revised estimates		Upgrade/(downgrade) (%)	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Net sales	10,903	11,425	11,748	12,560	7.8	9.9
EBITDA	6,024	6,387	6,775	7,291	12.5	14.2
EBITDA margin (%)	55.3	55.9	57.7	58.0	242bp	215bp
PBT	6,395	6,775	7,316	7,868	14.4	16.1
Net income	5,180	5,488	5,999	6,452	15.8	17.6
Net margin (%)	47.5	48.0	51.1	51.4	355bp	334bp

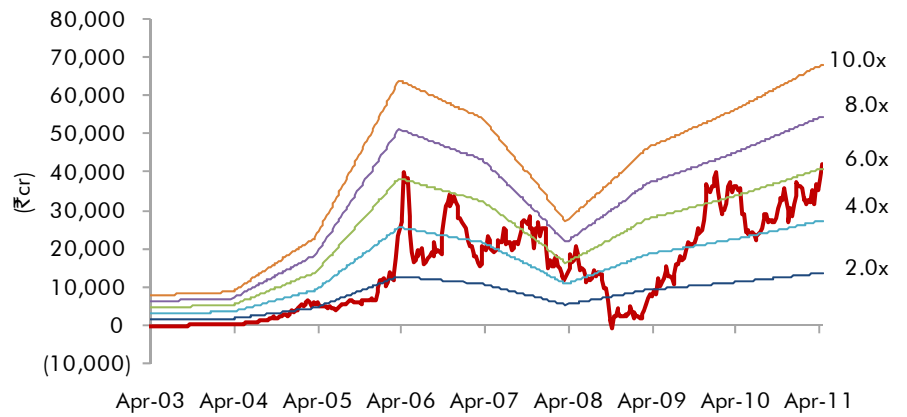
Source: Company, Angel Research

Exhibit 11: EPS – Angel forecast vs. consensus

Year (%)	Angel forecast	Bloomberg consensus	Variation (%)
FY2012E	14.2	12.8	11.1
FY2013E	15.3	13.4	14.3

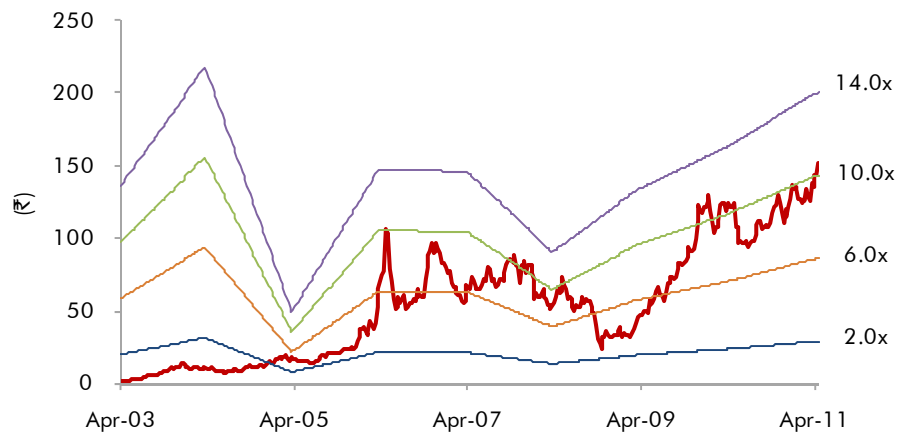
Source: Bloomberg, Angel Research

Exhibit 12: EV/EBITDA band



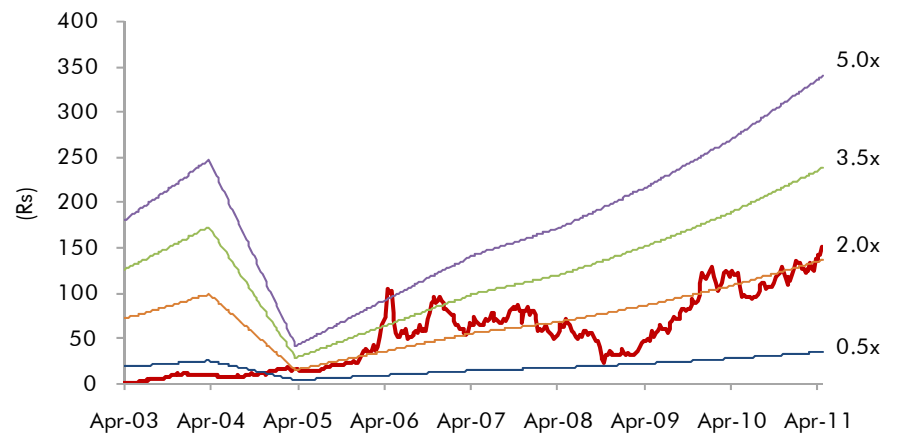
Source: Bloomberg, Angel Research

Exhibit 13: P/E band



Source: Bloomberg, Angel Research

Exhibit 14: P/BV band



Source: Bloomberg, Angel Research

Exhibit 15: Recommendation summary

Company	CMP	Target Price	Reco.	Mcap (₹ cr)	Upside (%)	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
	(₹)	(₹)				FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Hindalco	220	262	Buy	42,149	10.3	11.9	6.9	1.6	1.3	5.4	3.8	13.9	20.5	9.8	14.0
Nalco	95	74	Sell	24,445	22.0	22.6	20.6	2.6	2.7	12.7	11.7	11.1	12.7	12.5	14.8
Sterlite	179	215	Buy	60,021	15.4	10.1	7.4	1.3	1.1	7.0	4.6	13.6	15.9	12.6	15.4
HZL	152	-	Neutral	64,203	-	10.7	10.0	2.3	1.9	6.5	5.2	23.6	20.6	23.8	21.0

Source: Company, Angel Research

Profit & loss statement

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Net sales	7,878	5,680	8,017	9,912	11,748	12,560
Other operating income			122	127	149	157
Total operating income	7,878	5,680	8,139	10,039	11,897	12,717
% chg	(8.0)	(27.9)	43.3	23.3	18.5	6.9
Total expenditure	2,499	2,946	3,347	4,416	5,122	5,426
Net raw materials	1,352	1,906	1,961	2,754	3,172	3,391
Other Mfg. costs	511	364	613	803	952	1,017
Personnel	308	365	457	511	587	615
Other	328	311	316	349	411	402
EBITDA	5,378	2,734	4,792	5,623	6,775	7,291
% chg	(16.1)	(49.2)	75.3	17.3	20.5	7.6
% EBITDA margin	68.3	48.1	58.3	55.4	56.4	56.8
Depreciation	221	285	334	475	529	565
EBIT	5,158	2,449	4,458	5,148	6,246	6,726
% chg	(17.5)	(52.5)	82.0	15.5	21.3	7.7
(% of Net sales)	65.5	43.1	55.6	51.9	53.2	53.5
Interest & other charges	24	22	44	19	12	13
Other income	852	931	600	852	1,081	1,156
(% of PBT)	14.2	27.7	12.0	14.2	14.8	14.7
Share in profit of associates	-	-	-	-	-	-
Recurring PBT	5,985	3,358	5,014	5,981	7,316	7,868
% chg	(7.3)	(43.9)	49.3	19.3	22.3	7.6
Extraordinary inc/(expense)	-	-	-	21.2	-	-
PBT (reported)	5,985	3,358	5,014	5,960	7,316	7,868
Tax	1,589	631	973	1,059	1,317	1,416
(% of PBT)	26.6	18.8	19.4	17.8	18.0	18.0
PAT (reported)	4,396	2,728	4,041	4,900	5,999	6,452
Add: Share of earnings of associate	-	-	-	-	-	-
Less: Minority interest	-	-	-	-	-	-
Extra. expense/(inc.)	-	-	-	-	-	-
Net income (reported)	4,396	2,728	4,041	4,900	5,999	6,452
Adj. net income	4,396	2,728	4,041	4,900	5,999	6,452
% chg	(1.0)	(38.0)	48.2	21.3	22.4	7.6
(% of Net sales)	55.8	48.0	49.7	48.8	50.4	50.7
Basic EPS (₹)	10.4	6.5	9.6	11.6	14.2	15.3
Fully Diluted EPS (₹)	10.4	6.5	9.6	11.6	14.2	15.3
% chg	(1.0)	(38.0)	48.2	21.3	22.4	7.6

Balance sheet

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011E	FY2012E	FY2013E
SOURCES OF FUNDS						
Equity share capital	423	423	423	423	423	423
Reserves & surplus	11,426	13,935	17,701	22,258	27,836	33,835
Shareholders' funds	11,848	14,358	18,124	22,680	28,258	34,257
Share warrants	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
Total loans	-	9	60	60	60	60
Deferred tax liability	460	559	711	711	711	711
Total liabilities	12,308	14,925	18,896	23,452	29,030	35,029
APPLICATION OF FUNDS						
Gross block	5,182	5,856	8,241	9,768	10,295	10,822
Less: Acc. depreciation	1,485	1,751	2,077	2,551	3,080	3,645
Net Block	3,697	4,105	6,164	7,216	7,215	7,176
Capital work-in-Progress	465	1,108	1,113	513	213	313
Goodwill	-	-	-	-	-	-
Investments	6,332	6,929	10,949	10,949	10,949	10,949
Current assets	2,712	3,784	1,995	6,275	12,284	18,295
Cash	1,363	2,719	928	4,713	10,546	16,480
Loans & advances	384	313	457	503	503	503
Other	965	751	611	1,059	1,235	1,312
Current liabilities	898	1,001	1,326	1,502	1,631	1,705
Net current assets	1,813	2,783	669	4,774	10,653	16,590
Mis. exp. not written off	-	-	-	-	-	-
Total assets	12,308	14,925	18,896	23,452	29,030	35,029

Cash flow statement

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011E	FY2012E	FY2013E
Profit before tax	5,985	3,358	5,014	5,960	7,316	7,868
Depreciation	222	286	335	475	529	565
Change in working capital	376	296	173	(321)	(80)	(35)
Less: Other income	(767)	(777)	(563)	-	-	-
Direct taxes paid	1,529	521	785	1,059	1,317	1,416
Cash flow from operations	4,288	2,642	4,173	5,054	6,448	6,982
(Inc.)/ Dec. in fixed assets	(1,513)	(1,374)	(2,247)	(927)	(227)	(627)
(Inc.)/ Dec. in investments	(1,407)	(443)	(3,922)	-	-	-
(Inc.)/ Dec. in loans and adv.	(80)	71	(96)	(46)	-	-
Other income	226	(1,602)	2,288	-	-	-
Cash flow from investing	(2,774)	(3,348)	(3,977)	(973)	(227)	(627)
Issue of equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	-	8	43	-	-	-
Dividend paid	247	124	198	296	388	421
Others	24	22	33.0	-	-	-
Cash flow from financing	(271)	(137)	(187)	(296)	(388)	(421)
Inc./ (Dec.) in cash	1,243	(844)	8	3,786	5,833	5,934
Opening cash bal.	120	3,563	919	928	4,713	10,546
Closing cash bal.	1,363	2,719	928	4,713	10,546	16,480

Key ratios

Y/E March	FY2008	FY2009	FY2010	FY2011E	FY2012E	FY2013E
Valuation ratio (x)						
P/E (on FDEPS)	14.6	23.5	15.9	13.1	10.7	10.0
P/CEPS	13.9	21.3	14.7	11.9	9.8	9.2
P/BV	5.4	4.5	3.5	2.8	2.3	1.9
Dividend yield (%)	3.3	2.6	3.9	0.5	0.6	0.6
EV/Sales	7.2	9.6	6.5	4.9	3.6	2.9
EV/EBITDA	10.5	20.0	11.2	8.8	6.5	5.2
EV/Total assets	4.6	3.7	2.8	2.1	1.5	1.1
Per share data (₹)						
EPS (Basic)	10.4	6.5	9.6	11.6	14.2	15.3
EPS (fully diluted)	10.4	6.5	9.6	11.6	14.2	15.3
Cash EPS	10.9	7.1	10.4	12.7	15.4	16.6
DPS	5.0	4.0	6.0	0.7	0.9	0.9
Book value	28.0	34.0	42.9	53.7	66.9	81.1
DuPont analysis						
EBIT margin	65.5	43.1	54.1	51.9	53.2	53.5
Tax retention ratio (%)	73.4	81.2	80.6	82.2	82.0	82.0
Asset turnover (x)	2.0	1.1	1.3	1.4	1.6	1.7
RoIC (Post-tax)	94.5	40.2	56.8	57.9	67.7	73.8
Cost of debt (post tax)	-	-	-	-	-	-
Leverage (x)	-	-	-	-	-	-
Operating RoE	94.5	40.2	56.8	57.9	67.7	73.8
Returns (%)						
RoCE (Pre-tax)	51.0	18.0	25.6	24.3	23.8	21.0
Angel RoIC (pre-tax)	149.1	58.9	86.0	78.1	85.6	92.1
RoE	45.1	20.8	24.9	24.0	23.6	20.6
Turnover ratios (x)						
Asset turnover (gross block)	1.8	1.0	1.1	1.1	1.2	1.2
Inventory (days)	76	68	49	60	60	60
Receivables (days)	21	11	7	12	12	12
Payables (days)	52	46	52	50	50	50
WC cycle (days)	34	30	11	11	15	16
Solvency ratios (x)						
Net debt to equity	(0.6)	(0.7)	(0.7)	(0.7)	(0.8)	(0.8)
Net debt to EBITDA	(1.4)	(3.5)	(2.5)	(2.8)	(3.2)	(3.8)
Interest coverage	213.4	111.9	98.7	265.4	531.7	535.5

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement

	Hindustan Zinc
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	