

Hindustan Zinc

BSE SENSEX	S&P CNX	CMP: INR127	TP: INR148	Buy						
16,739	5,049									
Bloomberg	HZ IN									
Equity Shares (m)	4,225.3									
52-Week Range (INR)	155/107									
1,6,12 Rel. Perf. (%)	-1/1/7									
M.Cap. (INR b)	534.7									
M.Cap. (USD b)	10.5									
Year End	Net Sales (INR m)	PAT (INR m)	EPS (INR)	EPS Gr. (%)	P/E (X)	P/BV (X)	RoE (%)	RoCE (%)	EV/ Sales	EV/ EBITDA
3/10A	80,170	40,414	9.6	48.2	-	-	24.9	29.9	-	-
3/11A	99,121	49,179	11.6	21.7	10.9	2.4	24.2	28.3	3.9	7.0
3/12E	113,563	56,929	13.5	15.8	9.4	1.9	22.7	27.1	2.9	5.3
3/13E	129,118	65,332	15.5	14.8	8.2	1.6	21.4	25.5	2.1	3.7

Consolidated

- Hindustan Zinc's (HZ) adjusted PAT for 3QFY12 declined 6% QoQ to INR12.8b (v/s our estimate of INR13.1b). The impact of a sharp decline in LME prices was partly compensated by higher lead and silver volumes, and increase in regional premiums, driven by rupee depreciation. Mine production was lower than expected due to lower volumes from Rampura-Agucha mines and deterioration of grade.
- Cash and equivalents remained flat QoQ at INR162b, as the company has stopped discounting of debtors, which will effectively increase the debtor amount on the balance sheet by ~INR10b. HZ is still evaluating various options to deploy cash in the core business, including greenfield as well as inorganic expansion.
- The company has completed the commissioning of its new 350tpa silver refinery in 3QFY12 and expects silver production to ramp up in FY13. Lead production from the 100ktpa lead smelter at Dariba has ramped up well - capacity utilization in 3QFY12 was 70%.
- We remain positive on the stock due to strong growth in zinc metal volumes and sharper growth in lead and silver production over the next few years. The stock trades at an EV of 3.7x FY13E EBITDA and at 8.2x FY13E EPS, assuming zinc and lead prices of USD2,000/ton and exchange rate of INR50.1/USD. Maintain **Buy**.

Quarterly Performance- HIND ZINC

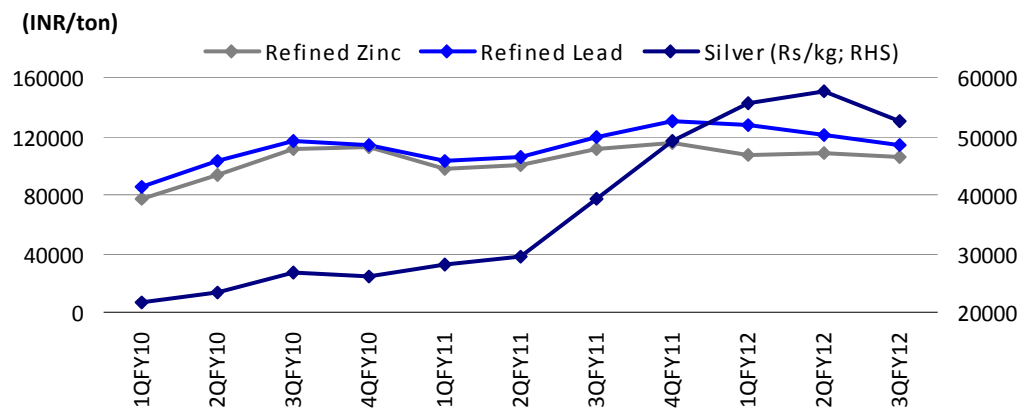
Y/E March	FY11				FY12				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	FY11	FY12E
Zn & Pb (000 tons)	179	191	191	210	208	200	218	229	770	855
Change (YoY %)	15.6	25.3	14.0	24.3	16.3	5.1	14.3	9.2	19.8	11.1
Silver (tons)	36	37	30	44	41	41	49	79	147	211
Net Sales	19,734	22,010	26,302	32,373	28,471	26,368	27,868	30,856	99,121	113,563
Change (YoY %)	30.5	21.0	16.9	27.2	44.3	19.8	6.0	-4.7	23.6	14.6
Total Expenditure	9,516	10,758	11,229	12,688	12,548	11,720	13,845	13,835	44,165	51,948
EBITDA	10,218	11,253	15,073	19,685	15,923	14,648	14,023	17,021	54,956	61,614
Change (YoY %)	33.1	4.6	8.7	27.1	55.8	30.2	-7.0	-13.5	17.7	12.1
As % of Net Sales	51.8	51.1	57.3	60.8	55.9	55.6	50.3	55.2	55.4	54.3
Interest	66	-5	1	133	65	120	87	87	194	359
Depreciation	1,123	1,158	1,195	1,271	1,345	1,455	1,591	1,638	4,747	6,030
Other Income	1,584	1,840	2,071	3,025	3,554	3,868	3,819	3,861	9,792	15,101
PBT (before EO item)	10,614	11,940	15,947	21,306	18,066	16,940	16,164	19,156	59,807	70,326
Extra-ordinary Income	0	-212	0	0	-44	-239	-64	0	-212	-347
PBT (after EO item)	10,614	11,728	15,947	21,306	18,022	16,702	16,099	19,156	59,596	69,979
Total Tax	1,705	2,241	3,051	3,594	3,073	3,255	3,363	3,640	10,591	13,331
% Tax	16.1	19.1	19.1	16.9	17.1	19.5	20.9	19.0	17.8	19.0
Reported PAT	8,909	9,487	12,896	17,713	14,949	13,447	12,736	15,516	49,005	56,648
Adjusted PAT	8,909	9,658	12,896	17,713	14,986	13,639	12,787	15,516	49,179	56,929
Change (YoY %)	23.9	3.3	12.3	43.0	68.2	41.2	-0.8	-12.4	21.7	15.8
Avg LME Zinc (USD/T)	2,052	2,043	2,330	2,395	2,271	2,247	1,917	2,000	2,205	2,109
Avg LME Lead (USD/T)	1,972	2,065	2,398	2,575	2,531	2,449	2,009	2,009	2,253	2,250
Silver (USD/oz)	18	18	25	31	35	36	29	28	23	32
Fixed assets		76,955		81,294		88,249			81,294	80,584
Cash etc (net of debt)		123,528	130,920	149,671	157,200	162,956	162,550		149,671	206,446
Net Working Capital		7,593		3,813		12,797			3,813	716

E: MOSL Estimates

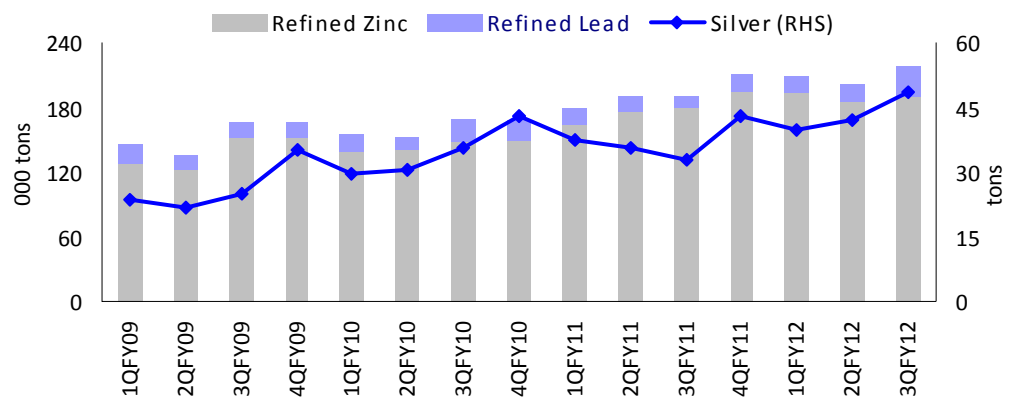
Metal regional premiums increased sharply; newly commissioned 350tpa silver refinery to drive volumes in FY13

- Net sales increased 6% QoQ to INR27.9b due to higher lead and silver metal volumes and increase in regional price premium over LME.
- LME Zinc and lead prices declined 16% and 20% QoQ respectively to USD1,917 and USD2,009 per ton. However regional premiums increased QoQ. Zinc metal premium increased sharply to 9% from 6% reported in 2QFY12; while lead premium increased to 12.1% from 7.9% QoQ. Silver realizations declined 9% QoQ to INR52,449/kg.
- Production of refined zinc increased 3% QoQ to 191k tons. Refined lead production increased 73% QoQ to 27.1k tons due to ramping up of production at recently commissioned 100ktpa lead smelter at Dariba. However, mine production declined 0.3% QoQ to 209k tons (vs est. of 229kt) due to lower volumes from RA mine and deterioration of grade. Mine production from SK mine is gradually ramped up to current run-rate of 1.5mtpa. Company expects to exit FY12 with a capacity of 2mtpa at SK mine.
- Production of silver was 48,413 kg (net of internal consumption) during the quarter. Silver contributed INR2.57b to the net sales.
- Company has commissioned 350tpa silver refining capacity during the quarter which will improve silver volumes in FY13. Silver production capacity expansion to 500tons is expected by early FY13.

Price realization of metals, by products supported by INR depreciation despite fall in LME



Temporary grade deterioration of ore resulted in lower than expected production



Source: Company/MOSL

EBITDA declined 4% QoQ; Cost of production (without royalty) at USD785/ton

EBITDA declined 4% QoQ to INR14b; in-line with est. of INR13.8b. The net zinc metal cost without royalty (CoP) increased 13% QoQ (in INR terms) to INR40,300/ton.

Outlook and valuation

We remain positive on stock due to strong volume growth of zinc metal and sharper growth in lead and silver production over next few years. Stock trades at an EV/EBITDA of 3.7x FY13 and PE of 8.2x FY13 assuming zinc and lead prices of US\$2,000/ton and USD/INR exchange rate of 50.1. 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. It has steadily increased its reserves and production through regular investment in exploration activities and smelting capacity addition. HZL's captive mines of zinc and lead ore are located in the state of Rajasthan, with total reserves of 313.2m tons - equivalent to 34.7m tons of refined zinc and lead MIC (metal in concentrate). 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. Sterlite Industries has 64.9% stake in Hindustan Zinc, while 29.5% is owned by the Government of India.

Key investment arguments

- After commissioning of HZL's 100ktpa lead smelter at Dariba, it has become world's largest integrated zinc-lead producer with a total smelting capacity of 1.064mtpa. This lead smelter along with recently commissioned 350tpa silver refinery will drive lead and silver volumes over FY11-13.
- Silver production capacity is expected to be 500 tons by early FY13. HZL is going to major beneficiary with current strong silver prices.

- HZL 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 LME zinc prices would adversely impact earnings.

Recent developments

- Company has completed commissioning of new 350tpa silver refinery in 3QFY12 and expects it to ramp up silver production in FY13.
- Lead Production from 100ktpa lead smelter at Dariba is ramping up well as capacity utilization in 3QFY12 was 70%.

Valuation and view

- Stock trades at an EV/EBITDA of 3.7x FY13 and PE of 8.2x FY13 assuming zinc and lead prices of US\$2,000/ton and USD/INR exchange rate of 50.1. Maintain **Buy**.

Sector view

- Zinc is our most preferred base metal because of favorable demand outlook and constraints in supply growth due to shortage of large scale low cost mines in the world.

Comparative valuations

		Hindustan Zinc	HNDL	Sterlite
P/E (x)	FY12E	9.4	7.6	6.5
	FY13E	8.2	7.0	6.1
P/BV (x)	FY12E	1.9	1.4	0.7
	FY13E	1.6	1.2	0.7
EV/Sales (x)	FY12E	2.9	0.6	0.7
	FY13E	2.1	0.6	0.5
EV/EBITDA (x)	FY12E	5.3	5.8	3.4
	FY13E	3.7	5.2	2.4

Shareholding pattern (%)

	Dec-11	Sep-11	Dec-10
Promoter	64.9	64.9	64.9
Domestic Inst	1.8	1.8	2.0
Foreign	1.4	1.4	1.7
Others	31.9	32.0	31.3

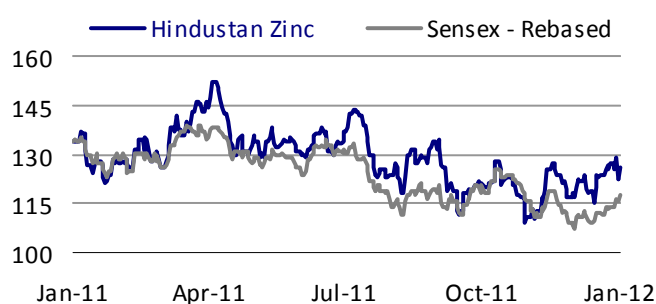
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	13.5	13.6	-0.9
FY13	15.5	15.5	-0.2

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
126	148	17.2	Buy

Stock performance (1 year)



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2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
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