

April 26, 2013

Kamlesh Bagmar
kamleshbagmar@plindia.com
+91-22-66322237

Mandar Dhavle
mandardhavle@plindia.com
+91-22-66322258

Rating	BUY
Price	Rs119
Target Price	Rs150
Implied Upside	26.1%
Sensex	19,407
Nifty	5,916

(Prices as on April 25, 2013)

Trading data

Market Cap. (Rs bn)	501.1
Shares o/s (m)	4,225.3
3M Avg. Daily value (Rs m)	111

Major shareholders

Promoters	64.92%
Foreign	1.45%
Domestic Inst.	31.56%
Public & Other	2.07%

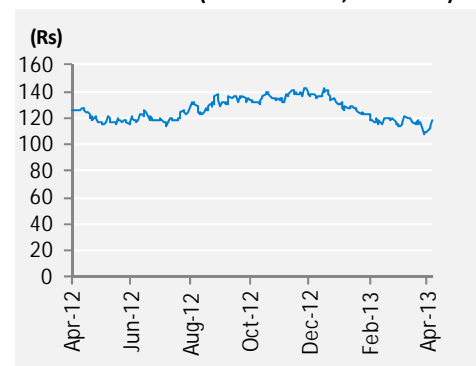
Stock Performance

(%)	1M	6M	12M
Absolute	2.4	(10.3)	(6.0)
Relative	(1.2)	(14.0)	(18.8)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2014	15.8	16.2	-2.7
2015	16.8	16.8	-0.3

Price Performance (RIC: HZNC.BO, BB: HZ IN)



Source: Bloomberg

Hindustan Zinc reported Q4FY13 earnings ahead of our expectation on the back of better-than-expected concentrated sales volumes. Given the strong likelihood of Govt. stake sale at a much higher price and beaten down valuations (EV/EBITDA:3.6x FY14E), we reiterate our **“BUY”** rating with TP of Rs150, EV/EBITDA of 4.5x FY15E.

- Strong concentrated sales leads the beat:** Thanks to higher-than-expected concentrated sales (61kt v/s PLe: 30kt), revenues grew ahead of our expectation at Rs38.5bn (PLe: Rs37.3bn), up 22.6% QoQ (24.5% YoY). Higher concentrated sales compensated lower-than-expected refined metal (215kt v/s PLe: 220kt) and silver (107t v/s PLe: 119t) volumes. Led by higher concentrated sales, EBITDA grew ahead of our expectation at Rs20.6bn (PLe: Rs19.4bn); up 46% QoQ (27% YoY). Gap further widened on PAT level on account of lower tax rate (9% v/s PLe: 13%). Adj. PAT grew -39.5% QoQ (53.7% YoY) at Rs21.8bn (PLe: Rs20.1bn).
- Key takeaways from earnings con-call:** **1) Zawar** (capacity of 1.2mtpa) secured all requisite approvals to resume production **2) Management** guided 15% growth in mined metal production in FY14 at 1m tonnes on the back of increased production in *Zawar, SK* and *Kayar* mines **3) Integrated** saleable silver production (net of own consumption) is guided to grow 25% YoY at 360t. **4) Net** addition of 16m tonnes to Reserves and Resources (R&R) after depletion of 8.6m tonnes in FY13. Total R&R stood at 348m tonnes at the end of FY14 with a mine life of 25+ years. **5) Cost** of production guided to remain stable in FY14 **6) Tax** rate is guided to be in mid-teens in FY14.
- Valuation and Outlook:** We remain positive on the stock given the play on attractive valuations and quality assets, coupled with strong likelihood of Govt's stake sale at a significant premium. We maintain our **“BUY”** rating with TP of Rs150, EV/EBITDA of 4.5x FY15E.

Key financials (Y/e March)	2012	2013	2014E	2015E
Revenues (Rs m)	105,994	125,257	130,650	135,993
Growth (%)	6.9	18.2	4.3	4.1
EBITDA (Rs m)	52,635	69,880	66,329	68,328
PAT (Rs m)	48,605	75,781	66,745	70,914
EPS (Rs)	11.5	17.9	15.8	16.8
Growth (%)	(0.8)	55.9	(11.9)	6.2
Net DPS (Rs)	2.4	3.1	3.5	4.0

Profitability & Valuation	2012	2013	2014E	2015E
EBITDA margin (%)	49.7	55.8	50.8	50.2
RoE (%)	19.7	25.6	19.2	17.8
RoCE (%)	19.7	25.7	19.3	17.9
EV / sales (x)	4.2	3.2	2.8	2.3
EV / EBITDA (x)	6.1	4.0	3.5	2.8
PE (x)	10.3	6.6	7.5	7.1
P / BV (x)	1.9	1.6	1.3	1.2
Net dividend yield (%)	2.0	2.6	3.0	3.4

Source: Company Data; PL Research

Exhibit 1: Q4FY13 Result Overview (Rs m)

Y/e March	Q4FY13	Q4FY12	YoY gr. (%)	Q3FY13	FY13	FY12	YoY gr. (%)
Net Sales	38,503	30,935	24.5	31,404	125,257	112,551	11.3
Raw material consumed	2,403	993	142.0	3,045	7,295	3,208	
<i>% of Net Sales</i>	<i>6.2</i>	<i>3.2</i>		<i>9.7</i>	<i>5.8</i>	<i>2.8</i>	
Stores and spares consumed	3,160	2,788	13.3	2,993	11,751	10,480	12.1
<i>% of Net Sales</i>	<i>8.2</i>	<i>9.0</i>		<i>9.5</i>	<i>9.4</i>	<i>9.3</i>	
Power and fuel	2,763	3,225	(14.3)	2,608	10,705	12,278	(12.8)
<i>% of Net Sales</i>	<i>7.2</i>	<i>10.4</i>		<i>8.3</i>	<i>8.5</i>	<i>10.9</i>	
Mining Royalty Rates	2,440	2,291	6.5	2,688	9,199	8,379	9.8
<i>% of Net Sales</i>	<i>6.3</i>	<i>7.4</i>		<i>8.6</i>	<i>7.3</i>	<i>7.4</i>	
Other manufacturing expenses	3,351	2,728	22.8	3,268	12,042	9,598	25.5
<i>% of Net Sales</i>	<i>8.7</i>	<i>8.8</i>		<i>10.4</i>	<i>9.6</i>	<i>8.5</i>	
Employee Cost	1,768	1,445	22.4	1,692	6,499	5,346	21.6
<i>% of Net Sales</i>	<i>4.6</i>	<i>4.7</i>		<i>5.4</i>	<i>5.2</i>	<i>4.8</i>	
Selling, general and administrative	2,042	1,290	58.3	1,035	5,181	3,824	35.5
<i>% of Net Sales</i>	<i>5.3</i>	<i>4.2</i>		<i>3.3</i>	<i>4.1</i>	<i>3.4</i>	
Total Expenditure	17,927	14,760	21.5	17,330	62,672	53,113	18.0
EBITDA	20,576	16,176	27.2	14,074	62,585	59,438	5.3
<i>Margin (%)</i>	<i>53.4</i>	<i>52.3</i>		<i>44.8</i>	<i>50.0</i>	<i>52.8</i>	
Depreciation	1,219	1,671	(27.0)	1,772	6,470	6,070	6.6
Other income	4,702	4,132	13.8	5,439	22,063	16,683	32.3
EBIT	24,059	18,637	29.1	17,741	78,178	70,051	11.6
Interest	108	(69)	(256.1)	75	291	174	67.0
PBT	23,951	18,706	28.0	17,666	77,887	69,877	11.5
Extraordinary income/(expense)	(175)	(84)		-	(175)	(431)	
PBT (After EO)	23,776	18,622	27.7	17,666	77,711	69,445	11.9
Tax	2,117	4,494	(52.9)	2,031	9,206	14,185	(35.1)
<i>% PBT</i>	<i>8.9</i>	<i>24.1</i>		<i>11.5</i>	<i>11.8</i>	<i>20.4</i>	
Reported PAT	21,658	14,128	53.3	15,636	68,505	55,260	24.0
Adjusted PAT	21,818	14,192	53.7	15,636	68,659	55,604	23.5

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e March	Q4FY13	Q4FY12	YoY gr. (%)	Q3FY13	FY13	FY12	YoY gr. (%)
Production volume							
- Mined metal (Zinc+Lead)-tonnes	260,000	223,000	16.6	233,000	870,000	829,979	4.8
- Refined metal (Zinc+Lead)-tonnes	214,822	224,844	(4.5)	201,380	795,610	851,118	(6.5)
- Silver (kgs)	117,000	76,655	52.6	108,560	383,394	206,735	85.5
Sales volume							
- Refined Zinc	182,000	191,900	(5.2)	160,000	674,000	758,577	(11.1)
- Refined Lead	32,500	35,000	(7.1)	29,000	117,500	91,471	28.5
- Sulphuric acid	343,715	326,000	5.4	300,000	1,228,715	1,290,451	(4.8)
- Silver (kgs)	107,000	74,000	44.6	73,000	375,000	205,362	82.6
Realisation (Rs/unit)							
- Refined Zinc	118,407	110,578	7.1	113,500	115,564	107,825	7.2
- Refined Lead	136,308	118,571	15.0	117,931	127,404	118,769	7.3
- Sulphuric acid	1,700	2,800	(39.3)	2,752	2,484	3,095	(19.8)
- Silver (kgs)	57,103	55,270	3.3	53,151	55,813	55,194	1.1

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2012	2013	2014E	2015E
Net Revenue	105,994	125,257	130,650	135,993
Raw Material Expenses	—	—	—	—
Gross Profit	105,994	125,257	130,650	135,993
Employee Cost	5,346	6,499	7,151	7,866
Other Expenses	48,012	48,878	57,170	59,798
EBITDA	52,635	69,880	66,329	68,328
Depr. & Amortization	6,107	6,470	7,182	7,516
Net Interest	140	291	261	272
Other Income	16,499	21,888	19,638	22,888
Profit before Tax	62,888	85,006	78,523	83,429
Total Tax	14,185	9,206	11,779	12,514
Profit after Tax	48,703	75,800	66,745	70,914
Ex-Od items / Min. Int.	(765)	(332)	—	—
Adj. PAT	48,605	75,781	66,745	70,914
Avg. Shares O/S (m)	4,225.3	4,225.3	4,225.3	4,225.3
EPS (Rs.)	11.5	17.9	15.8	16.8

Cash Flow Abstract (Rs m)

Y/e March	2012	2013	2014E	2015E
C/F from Operations	44,921	54,543	57,645	58,336
C/F from Investing	(34,986)	2,658	47	1,484
C/F from Financing	(12,417)	(12,568)	(14,994)	(17,460)
Inc. / Dec. in Cash	(2,482)	44,632	42,699	42,360
Opening Cash	56,329	52,553	97,186	139,884
Closing Cash	53,806	97,186	139,884	182,244
FCFF	30,744	80,765	69,351	76,569
FCFE	30,744	80,765	69,351	76,569

Key Financial Metrics

Y/e March	2012	2013	2014E	2015E
Growth				
Revenue (%)	6.9	18.2	4.3	4.1
EBITDA (%)	(4.1)	32.8	(5.1)	3.0
PAT (%)	(0.8)	55.9	(11.9)	6.2
EPS (%)	(0.8)	55.9	(11.9)	6.2
Profitability				
EBITDA Margin (%)	49.7	55.8	50.8	50.2
PAT Margin (%)	45.9	60.5	51.1	52.1
RoCE (%)	19.7	25.7	19.3	17.9
RoE (%)	19.7	25.6	19.2	17.8
Balance Sheet				
Net Debt : Equity	(0.2)	(0.3)	(0.4)	(0.4)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	10.3	6.6	7.5	7.1
P / B (x)	1.9	1.6	1.3	1.2
EV / EBITDA (x)	8.5	5.8	5.4	4.7
EV / Sales (x)	4.2	3.2	2.8	2.3
Earnings Quality				
Eff. Tax Rate	22.6	10.8	15.0	15.0
Other Inc / PBT	26.7	25.9	25.0	27.4
Eff. Depr. Rate (%)	5.2	5.4	5.6	5.7
FCFE / PAT	63.3	106.6	103.9	108.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013	2014E	2015E
Shareholder's Funds	268,813	322,090	371,647	422,918
Total Debt	4	4	4	4
Other Liabilities	11,088	11,710	12,495	13,329
Total Liabilities	279,905	333,804	384,146	436,252
Net Fixed Assets	91,178	102,457	113,025	124,910
Goodwill	—	—	—	—
Investments	126,949	126,949	126,949	126,949
Net Current Assets	61,779	104,398	144,172	184,393
<i>Cash & Equivalents</i>	<i>52,553</i>	<i>97,186</i>	<i>139,884</i>	<i>182,244</i>
<i>Other Current Assets</i>	<i>23,551</i>	<i>25,416</i>	<i>25,143</i>	<i>25,760</i>
<i>Current Liabilities</i>	<i>14,326</i>	<i>18,204</i>	<i>20,855</i>	<i>23,611</i>
Other Assets	—	—	—	—
Total Assets	279,905	333,804	384,146	436,252

Quarterly Financials (Rs m)

Y/e March	Q1FY13	Q2FY13	Q3FY13	Q4FY13
Net Revenue	27,127	28,223	31,404	38,503
EBITDA	13,935	13,999	14,074	20,576
<i>% of revenue</i>	<i>51.4</i>	<i>49.6</i>	<i>44.8</i>	<i>53.4</i>
Depr. & Amortization	1,734	1,746	1,772	1,219
Net Interest	129	(21)	75	108
Other Income	6,093	5,829	5,439	4,702
Profit before Tax	18,166	18,104	17,666	23,776
Total Tax	2,353	2,706	2,031	2,117
Profit after Tax	15,813	15,398	15,636	21,658
Adj. PAT	15,813	15,398	15,636	21,818

Key Operating Metrics

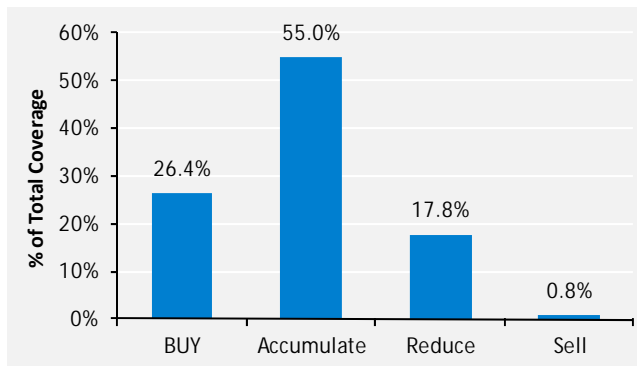
Y/e March	2012	2013	2014E	2015E
Mined Zinc metal prod-MIC tns	738,570	769,472	864,656	881,507
Mined Lead metal prod-MIC tns	91,870	100,222	119,613	122,795
Total Mines metal-MIC tns	830,440	869,693	984,270	1,004,302
Refined Zinc Vol. (tonnes)	758,499	682,544	740,700	748,930
Refined Lead Vol. (tonnes)	91,701	117,719	122,776	122,713
Total Refined metal-tns	850,200	800,262	863,476	871,643
Concentrate sales vol (tonnes)	10,086	111,129	176,878	192,606
Silver Sales Vol. (kg)	206,000	369,995	391,913	417,478
Zinc (US\$)-LME / tonne	2,098	1,948	1,950	2,000
Lead(US\$)-LME / tonne	2,269	2,113	2,121	2,170
Silver (Rs / Kg)	38,969	62,551	55,231	45,900
Cost per tonne of Mined metal (Zn+Pb)	64,253	71,789	65,349	67,375

Source: Company Data, PL Research.



Prabhudas Lilladher Pvt. Ltd.
 3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India
 Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.