

Hindustan Zinc

18 October 2012

Reuters: HZL.BO; Bloomberg: HZ IN

Performance Slightly Above Expectations; Retain Hold

Hindustan Zinc (HZL)'s 2QFY13 EBITDA was 6%/1% above our/street estimates, while PAT was 12%/11% above our/street estimates, respectively. Higher revenue due to improvement in zinc-lead premium over London Metal Exchange (LME) prices, higher other income and lower tax rate were the reasons behind the performance being stronger than our expectations. We may review our earnings estimates post the conference call scheduled at 10.30AM on 19 October 2012. We retain our Hold rating as well as the target price of Rs151 on the stock.

Operational performance subdued, but on expected lines: In line with its guidance, HZL reported mined metal production of 190,000tn for 2QFY13, a drop of 9% YoY but a rise of 2% QoQ. Due to lower mined metal production, HZL posted 17% YoY and 3% QoQ drop in integrated zinc metal production at 153,000tn. However, custom route zinc metal production stood at 10,000tn compared to nil production in 2QFY12 and 4,000tn in 1QFY13, which restricted the overall fall in zinc production to 12% YoY, while it was up 1% QoQ. Integrated refined lead production was up 41% YoY at 24,000tn due to ramp-up at Dariba lead smelter, but down 17% QoQ because of lower mined metal production. Integrated silver production jumped 63% YoY to 2,587mn ounce due to ramp-up at Sindesar Khurd mine, while it was up 1% QoQ as well. Custom route silver output jumped multi-fold, from 77,000ounce to 366,000ounce.

Financial performance update: Revenue was up 9% YoY due to higher silver and lead volume and higher zinc realisation in rupee terms, while it was up 4% QoQ. HZL posted flat performance with a 1% YoY drop in EBITDA at Rs14,431mn, while it was up 1% QoQ. Other income was up 40% YoY due to higher cash surplus, while it was down 6% QoQ as 1QFY13 included mark-to-market gains of Rs1,200mn. Effective tax rate for 2QFY13 stood at 14.9% versus 19.5% in 2QFY12 and 13.0% in 1QFY13. PAT showed a 15% YoY jump due to higher other income and lower tax at Rs15,398mn, but it was down 3% QoQ. Production costs stood at Rs46,750/tn in 2QFY13, up 20% YoY and 2% QoQ, due to higher prices of consumables and lower metal output.

Expansion and liquidity status: HZL maintained its FY13E guidance to achieve higher zinc output compared to a year ago, despite weak performance in the first-half. It expects Rampura underground mine and Kayar mine to start production in FY14. Total cash surplus at the end of 2QFY13 stood at Rs191,356mn versus Rs194,040mn at the end of 1QFY13. This drop can partially be attributed to higher working capital deployment, mainly in inventory, which rose from Rs7,979mn at the end of 4QFY12 to Rs17,032mn at the end of 2QFY13.

HOLD

Sector: Non-ferrous

CMP: Rs135

Target Price: Rs151

Upside: 12%

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Key Data

Current Shares O/S (mn)	4,225.3
Mkt Cap (Rsbn/US\$bn)	568.3/10.7
52 Wk H / L (Rs)	154/106
Daily Vol. (3M NSE Avg.)	908,757

Price Performance (%)

	1 M	6 M	1 Yr
Hindustan Zinc	0.2	7.5	13.4
Nifty Index	2.1	7.9	13.5

Source: Bloomberg

Y/E March (Rsmn)	2QFY12	1QFY13	2QFY13	YoY (%)	QoQ (%)	1HFY12	1HFY13	YoY (%)
Net sales	26,368	27,477	28,655	8.7	4.3	54,839	56,132	2.4
Raw material and staff costs	8,622	10,119	11,120	29.0	9.9	18,439	21,239	15.2
% of sales	32.7	36.8	38.8	-	-	33.6	37.8	-
Mining royalty	2,287	2,044	2,028	(11.3)	(0.8)	4,222	4,072	(3.6)
% of sales	8.7	7.4	7.1	-	-	7.7	7.3	-
Other operating expenses	812	1,029	1,075	32.4	4.5	1,648	2,104	27.7
% of sales	3.1	3.7	3.8	-	-	3.0	3.7	-
EBITDA	14,648	14,286	14,431	(1.5)	1.0	30,530	28,717	(5.9)
EBITDA margin (%)	55.6	52.0	50.4	-	-	55.7	51.2	-
Depreciation	1,455	1,734	1,746	20.0	0.7	2,801	3,480	24.2
Interest costs	120	129	(21)	(117.4)	(116.2)	187	108	(42.2)
Other income	3,868	5,743	5,398	39.6	(6.0)	7,464	11,141	49.2
Exceptional item	(239)	-	-	-	-	(283)	-	-
PBT	16,702	18,166	18,104	8.4	(0.3)	34,724	36,270	4.5
Provision for tax	3,255	2,353	2,706	(16.9)	15.0	6,328	5,059	(20.1)
Effective tax rate	19.5	13.0	14.9	-	-	18.2	13.9	-
PAT	13,447	15,813	15,398	14.5	(2.6)	28,396	31,211	9.9
EPS (Rs)	3.2	3.7	3.6	14.5	(2.6)	6.7	7.4	9.9

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Key financials

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	81,389	100,419	114,057	128,605	141,594
YoY (%)	39.8	23.4	13.6	12.8	10.1
EBITDA	47,920	56,228	61,184	69,096	75,702
EBITDA (%)	58.9	56.0	53.6	53.7	53.5
Adj. PAT	40,414	49,005	55,260	68,577	70,426
EPS (Rs)	9.6	11.6	13.1	16.2	16.7
YoY (%)	48.2	21.3	12.8	24.1	2.7
RoE (%)	22.3	21.7	20.6	21.2	18.7
RoCE (%)	22.4	21.9	20.8	21.3	18.7
P/E (x)	14.1	11.6	10.3	8.3	8.1
EV/EBITDA (x)	9.4	7.5	6.4	5.3	4.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Our estimates versus actuals

(Rsmn)	2QFY12	1QFY13	2QFY13	YoY (%)	QoQ (%)	2QFY13E	Dev. (%)	2QFY13BBE	Dev. (%)
Net sales	26,368	27,477	28,655	8.7	4.3	27,496	4.2	27,414	4.5
EBITDA	14,648	14,286	14,431	(1.5)	1.0	13,553	6.5	14,262	1.2
PAT	13,447	15,813	15,398	14.5	(2.6)	13,741	12.1	13,883	10.9

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 3: Production details

('000tn)	2QFY12	1QFY13	2QFY13	YoY (%)	QoQ (%)	1HFY12	1HFY13	YoY (%)
Mined metal content	210	187	190	(9.5)	1.6	398	377	(5.3)
Refined zinc								
Integrated	185	157	153	(17.3)	(2.5)	376	310	(17.6)
Custom	0	4	10	0.0	150.0	2	14	600.0
Total	185	161	163	(11.9)	1.2	378	324	(14.3)
Refined lead								
Integrated	17	29	24	41.2	(17.2)	33	53	60.6
Custom	0	2	3	0.0	50.0	0	5	0.0
Total	17	31	27	58.8	(12.9)	33	58	75.8
Silver (in '000ounce)								
Integrated	1,584	2,552	2,587	63.3	1.4	3,088	5,139	66.4
Custom	0	77	366	0.0	375.3	0	443	0.0
Total	1,584	2,629	2,953	86.4	12.3	3,088	5,582	80.8

Source: Company, Nirmal Bang Institutional Equities Research

Rating history

Date	Rating	Market price (Rs)	Target price (Rs)
17 April 2012	Buy	123	153
20 April 2012	Buy	126	151
4 October 2012	Hold	136	151

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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