

Hindustan Zinc

23 July 2012

Reuters: HZL.BO; Bloomberg: HZ IN

Operational Performance In Line; Maintain Buy

Hindustan Zinc's 1QFY13 result was in line with our estimate at the operational level, reporting an EBITDA of Rs14,286mn, 1% above our estimate and 4% below street estimate. PAT was 15% above our/street estimates at Rs15,813mn each due to a steep jump in other income and lower effective tax rate. We have revised our earnings estimates due to a slight rise in investment yields and production costs and the new USD/INR assumption. The above factors result in a 2% drop in FY13E EBITDA, while FY14E EBITDA remains broadly unchanged. PAT estimates for FY13E/FY14E have been revised upwards by 8%/3%, respectively, due to lower tax rate assumption but this does not have a material impact on our valuation as the tax outgo would be higher than reported tax expenses due to MAT. We retain our Buy rating as well as the TP of Rs151.

Operational performance subdued, but on expected lines: Total mine production witnessed a drop of 1% YoY during the quarter, but it was down 16% QoQ due to ore grade deterioration at Rampura Agucha (RA) mine. However, at the beginning of FY13, HZL had indicated that 1HFY13 production would be marginally lower on YoY basis. Production from Sindesar Khurd (SK) mine was up 60% YoY, which offset the lower production from RA mine. HZL posted 17% YoY and 15% QoQ drop in refined zinc production, as it had utilised the mined metal inventory in 1QFY12. Refined lead production jumped 96% YoY due to commissioning of a new smelter, while net silver output was up 84% YoY due to ramp-up at SK mine.

Financial performance update: Revenue was down 3% YoY and 12% QoQ due to lower volume and a slump in metal prices. EBITDA dropped 10% YoY and 14% QoQ due to lower zinc-lead prices, higher costs and lower volume, while PAT surged 6% YoY and 12% QoQ due to higher other income and lower tax. Other income was up 51% QoQ due to mark-to-market gains of Rs1,200mn and higher cash surplus. Effective tax rate for 1QFY13 stood at 13.0% versus 17.0% in 1QFY12 and 24.1% in 4QFY12. Production costs stood at Rs45,759/tn in 1QFY13, a growth of 17% YoY and 14% QoQ, due to higher price of consumables and lower metal production.

Expansion update and liquidity status: HZL is currently working on development of underground mining operations at RA mine and at greenfield Kayar mine. Both the mines are expected to start commercial production in FY14. Total cash balance at the end of 1QFY13 stood at Rs194,040mn versus Rs179,480mn at the end of 4QFY12.

BUY

Sector: Non-ferrous

CMP: Rs120

Target Price: Rs151

Upside: 26%

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Key Data

Current Shares O/S (mn)	4,225.3
Mkt Cap (Rsbn/US\$bn)	506.2/9.2
52 Wk H / L (Rs)	154/106
Daily Vol. (3M NSE Avg.)	662,378

Price Performance (%)

	1 M	6 M	1 Yr
Hindustan Zinc	1.1	(4.8)	(16.1)
Nifty Index	1.1	3.1	(7.6)

Source: Bloomberg

Y/E March (Rsmn)	1QFY12	4QFY12	1QFY13	YoY (%)	QoQ (%)	FY11	FY12	YoY (%)
Net sales	28,471	31,350	27,477	(3.5)	(12.4)	100,419	114,057	13.6
Raw material & employee costs	9,817	11,179	10,119	3.1	(9.5)	32,647	40,804	25.0
% of sales	34.5	35.7	36.8			32.5	35.8	
Mining royalty	1,936	2,291	2,044	5.6	(10.8)	8,033	8,519	6.0
% of sales	6.8	7.3	7.4			8.0	7.5	
Other operating expenses	836	1,290	1,029	23.0	(20.2)	3,511	3,550	1.1
% of sales	2.9	4.1	3.7			3.5	3.1	
EBITDA	15,882	16,590	14,286	(10.0)	(13.9)	56,228	61,184	8.8
EBITDA margin (%)	55.8	52.9	52.0			56.0	53.6	
Depreciation	1,345	1,671	1,734	28.9	3.8	4,747	6,062	27.7
Interest costs	66	24	129	94.0	436.7	406	296	(26.9)
Other income	3,597	3,811	5,743	59.7	50.7	8,521	15,051	76.6
Exceptional item	(44)	(84)	-	-	-	-	(431)	
PBT	18,022	18,622	18,166	0.8	(2.4)	59,595	69,445	16.5
Provision for tax	3,073	4,494	2,353	(23.4)	(47.6)	10,591	14,185	33.9
Effective tax rate	17.1	24.1	13.0			17.8	20.4	
PAT	14,949	14,128	15,813	5.8	11.9	49,005	55,260	12.8
EPS (Rs)	3.5	3.3	3.7	5.8	11.9	11.6	13.1	12.8

Source: Company, Nirmal Bang Institutional Equities Research

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)	12.5	10.3	9.2	7.4	7.2
EV/EBITDA (x)	8.1	6.3	5.3	4.1	3.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Our estimates versus actuals

	1QFY12	4QFY12	1QFY13	YoY (%)	QoQ (%)	1QFY13E	Dev. (%)		
Production data									
Zinc (tn)	192,980	190,000	161,000	(16.6)	(15.3)	163,000	(1.2)		
Lead (tn)	14,800	35,000	29,000	95.9	(17.1)	26,000	11.5		
Silver (kg)	39,586	81,000	73,000	84.4	(9.9)	75,000	(2.7)		
Financials (Rsmn)									
Net sales	28,471	31,350	27,477	(3.5)	(12.4)	26,530	3.6	29,193	(5.9)
EBITDA	15,882	16,590	14,286	(10.0)	(13.9)	14,171	0.8	14,847	(3.8)
PAT	14,949	14,128	15,813	5.8	11.9	13,806	14.5	13,777	14.8

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 3: Our revised FY13E/FY14E assumptions

Description	Earlier assumptions		New assumptions		Change (%)	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Sales volume (tn)						
Zinc metal	760,000	780,000	742,000	780,000	(2.4)	0.0
Lead metal	126,000	142,000	127,000	143,000	0.8	0.7
Silver (kg)	350,000	450,000	382,000	478,000	9.1	6.2
Realisation (Rs/tn)						
Zinc metal	109,743	109,641	109,696	111,737	(0.0)	1.9
Lead metal	116,601	116,185	116,425	118,585	(0.2)	2.1
Silver (Rs/kg)	49,400	49,000	49,842	49,000	0.9	0.0
Financials (Rsmn)						
Net sales	130,665	139,581	128,605	141,594	(1.6)	1.4
EBITDA	70,305	75,669	69,096	75,702	(1.7)	0.0
PAT	63,658	68,548	68,577	70,426	7.7	2.7

Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 4: Income statement

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	81,389	100,419	114,057	128,605	141,594
YoY growth (%)	39.8	23.4	13.6	12.8	10.1
Raw material costs	19,612	27,539	35,458	40,049	44,083
% of sales	24.1	27.4	31.1	31.1	31.1
Royalty & ccess	6,128	8,033	8,519	9,516	11,168
% of sales	7.5	8.0	7.5	7.4	7.9
Staff costs & other expenses	7,729	8,619	8,896	9,944	10,642
% of sales	9.5	8.6	7.8	7.7	7.5
Total expenditure	33,469	44,191	52,873	59,510	65,892
EBITDA	47,920	56,228	61,184	69,096	75,702
EBITDA margin (%)	58.9	56.0	53.6	53.7	53.5
Depreciation	3,343	4,747	6,062	7,103	8,451
EBIT	44,578	51,480	55,122	61,993	67,251
Interest & finance charges	439	406	296	339	280
Other income	6,003	8,521	15,051	19,326	18,914
Exceptional loss (gain)	0	0	431	0	0
PBT	50,141	59,595	69,445	80,980	85,885
Provision for tax	9,727	10,591	14,185	12,403	15,459
Effective tax rate (%)	19.4	17.8	20.4	15.3	18.0
PAT	40,414	49,005	55,260	68,577	70,426
YoY growth (%)	48.2	21.3	12.8	24.1	2.7
PAT margin (%)	46.2	45.0	42.8	46.4	43.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance Sheet

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Share capital	4,225	8,451	8,451	8,451	8,451
Reserves and surplus	177,014	216,881	260,362	315,097	368,715
Shareholders' funds	181,240	225,332	268,813	323,548	377,166
Short-term loans	605	4	4	4	4
Long-term loans	0	0	0	0	0
Total loans	605	4	4	4	4
Deferred tax liability	7,112	9,447	11,088	13,517	16,094
Total capital employed	188,957	234,783	279,905	337,069	393,264
Gross block	82,407	97,474	115,955	138,008	165,008
Less: Acc depreciation	20,766	24,932	30,827	37,930	46,382
Net block	61,641	72,542	85,128	100,077	118,626
Capital WIP	8,699	5,948	4,450	2,397	397
Total fixed assets	70,339	78,490	89,578	102,475	119,023
Long term investments	0	21	26	26	26
Cash and bank balance	9,275	56,329	52,553	94,649	133,691
Current investments	109,492	93,325	126,923	126,923	126,923
Inventories	4,517	7,624	7,979	9,443	10,181
Debtors	1,518	2,089	3,325	3,818	4,040
Other CA and loans & adv.	7,073	12,652	13,847	17,200	19,337
Total CA and loans & adv.	131,875	172,019	204,627	252,032	294,172
Creditors	4,777	3,682	4,103	4,620	5,016
Other current liabilities	5,086	6,394	5,803	5,923	6,043
Provisions	3,395	5,671	4,420	6,921	8,898
Net current assets	118,617	156,272	190,301	234,569	274,215
Total assets	188,957	234,783	279,905	337,069	393,264

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
EBIT	44,578	51,480	55,122	61,993	67,251
(Inc./dec) in working capital	767	(2,116)	(609)	(880)	(5)
Cash flow from operations	45,345	49,365	54,514	61,113	67,246
Other income	6,003	8,521	15,051	19,326	18,914
Depreciation	3,343	4,747	6,062	7,103	8,451
Interest paid (-)	439	406	296	339	280
Tax paid (-)	7,846	11,163	15,017	13,767	15,459
Dividends paid (-)	1,977	2,956	12,277	11,340	14,830
Net cash from operations	44,427	48,108	48,036	62,096	64,042
Capital expenditure (-)	22,492	14,476	16,719	20,000	25,000
Net cash after capex	21,936	33,633	31,317	42,096	39,042
Inc./dec. in short-term debt	518	(601)	0	0	0
(Inc./dec) in investments	(40,203)	16,146	(33,603)	0	0
Cash from financial activities	(39,685)	15,545	(33,603)	0	0
Others	(167)	(2,124)	(1,491)	0	0
Opening cash	27,192	9,275	56,329	52,553	94,649
Closing cash	9,275	56,329	52,553	94,649	133,691
Change in cash	(17,916)	47,054	(3,776)	42,096	39,042

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

Y/E March	FY10	FY11	FY12	FY13E	FY14E
Per share (Rs)					
EPS	9.6	11.6	13.1	16.2	16.7
Book value	42.9	53.3	63.6	76.6	89.3
Valuation (x)					
P/E	12.5	10.3	9.2	7.4	7.2
P/BV	2.8	2.2	1.9	1.6	1.3
EV/EBITDA	8.1	6.3	5.3	4.1	3.2
EV/Sales	4.8	3.6	2.9	2.2	1.7
M-cap/Sales	6.2	5.0	4.4	3.9	3.6
Returns ratios (%)					
RoCE	22.4	21.9	20.8	21.3	18.7
RoE	22.3	21.7	20.6	21.2	18.7
Margin ratios (%)					
EBITDA margin	58.9	56.0	53.6	53.7	53.5
EBIT margin	54.8	51.3	48.3	48.2	47.5
PBT margin	57.4	54.7	53.8	54.7	53.5
PAT margin	46.2	45.0	42.8	46.4	43.9
Turnover ratios					
Asset turnover ratio (x)	1.0	1.0	1.0	0.9	0.9
Avg. collection period (days)	6.9	7.6	10.6	11.0	10.6
Avg. payment period (days)	92.4	46.2	43.4	42.2	41.5
Solvency ratios (x)					
Debt-equity	0.0	0.0	0.0	0.0	0.0
Interest coverage ratio	122.8	159.6	257.3	261.0	337.9

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

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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