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Rating	Accumulate
Price	Rs120
Target Price	Rs133
Implied Upside	10.8%
Sensex	17,158
Nifty	5,205

(Prices as on July 20, 2012)

### Trading data

Market Cap. (Rs bn)	506.2
Shares o/s (m)	4,225.3
3M Avg. Daily value (Rs m)	85.7

### Major shareholders

Promoters	64.92%
Foreign	1.33%
Domestic Inst.	1.88%
Public & Other	31.87%

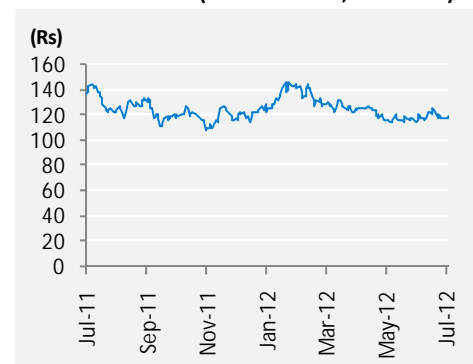
### Stock Performance

(%)	1M	6M	12M
Absolute	(1.6)	(5.5)	(12.6)
Relative	(3.2)	s2.1	(5.4)

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	14.4	14.3	1.1
2014	16.1	15.5	4.1

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



Source: Bloomberg

Hindustan Zinc (HZL) reported earnings below our expectation on EBITDA level, owing to lower than expected refined metal volumes. We reiterate our Accumulate rating given its strong return profile (RoE-20%), attractive valuations (EV/EBITDA-4.6x FY13) and robust free cash flows (Rs34bn p.a.).

■ **Earnings miss on EBITDA; higher other income and low tax rate leads the beat on PAT:** Owing to lower than expected refined zinc-lead volumes (189kt v/sPL: 203kt), revenue fall short of our expectation at Rs27.1b (PL: Rs28.3b), down 4% YoY and 12% QoQ. Impacted by lower volumes, earnings missed our expectation at Rs13.9b (PL: Rs14.6b), down 11% YoY and 14% QoQ. However, thanks to higher than expected other income at Rs6.1b (PL: Rs4.3b) which includes MTM gain of Rs1.2bn on investments and lower tax rate (13% v/s PL: 20%), HZL beat our expectation on PAT at Rs15.8bn (PL: 13.8b).

■ **Key highlights of post result con-call: 1)** Generated FCF of Rs16.6bn during the quarter **2)** Management expects to get final forest clearance for closed mines in Zawar soon **3)** Resumption of operations at these mines would contribute ~34k tonnes of MIC to the existing production of 16k tonnes **4)** Refined zinc production expected flat YoY at 759k tonnes during FY13 **5)** Strip ratio at 12.6x during quarter **6)** Silver content of 130ppm at SK mines against 105 during FY12.

■ **Valuation and Outlook:** Stock's valuations de-rated post February, largely on account of structural upward shift in CoP due to transition of RA's OC operations to UG, strong possibility of government's stake buy-out at lower levels, elevated capital spending in RA and falling ore grades. However, attractive valuations (EV/EBITDA-4.6x FY13E) and strong free cash flow generation of Rs34bn p.a presents a strong case for our positive outlook on the stock. We maintain 'Accumulate' rating with TP of Rs133, EV/EBITDA of 5.5x FY13E.

Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	99,121	105,994	115,852	126,436
Growth (%)	23.6	6.9	9.3	9.1
EBITDA (Rs m)	54,859	52,635	62,662	68,008
PAT (Rs m)	49,008	48,605	61,002	67,971
EPS (Rs)	11.6	11.5	14.4	16.1
Growth (%)	21.3	(0.8)	25.5	11.4
Net DPS (Rs)	1.0	2.4	3.0	3.5

Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	55.3	49.7	54.1	53.8
RoE (%)	24.1	19.7	20.9	20.0
RoCE (%)	24.1	19.7	21.0	20.0
EV / sales (x)	4.5	4.3	3.6	3.0
EV / EBITDA (x)	6.5	6.2	4.6	3.7
PE (x)	10.3	10.4	8.3	7.4
P / BV (x)	2.2	1.9	1.6	1.4
Net dividend yield (%)	0.8	2.0	2.5	2.9

Source: Company Data; PL Research

**Exhibit 1: Q1FY13 Result Overview (Rs m)**

Y/e March	Q1FY13	Q1FY12	YoY gr. (%)	Q4FY12	FY13E	FY12	YoY gr. (%)
<b>Net Sales</b>	<b>27,127</b>	<b>28,214</b>	<b>(3.9)</b>	<b>30,935</b>	<b>115,852</b>	<b>112,551</b>	<b>2.9</b>
Raw material consumed	618	1,317	(53.1)	993	-	3,121	
<i>% of Net Sales</i>	<i>2.3</i>	<i>4.7</i>		<i>3.2</i>	<i>0.0</i>	<i>2.8</i>	
Stores and spares consumed	2,714	2,366	14.7	2,788	11,061	10,467	5.7
<i>% of Net Sales</i>	<i>10.0</i>	<i>8.4</i>		<i>9.0</i>	<i>9.5</i>	<i>9.3</i>	
Power and fuel	2,715	2,953	(8.1)	3,225	11,964	12,278	(2.6)
<i>% of Net Sales</i>	<i>10.0</i>	<i>10.5</i>		<i>10.4</i>	<i>10.3</i>	<i>10.9</i>	
Mining Royalty Rates	2,044	1,936	5.6	2,291	9,268	8,379	10.6
<i>% of Net Sales</i>	<i>7.5</i>	<i>6.9</i>		<i>7.4</i>	<i>8.0</i>	<i>7.4</i>	
Other manufacturing expenses	2,580	1,900	35.8	2,728	10,242	9,561	7.1
<i>% of Net Sales</i>	<i>9.5</i>	<i>6.7</i>		<i>8.8</i>	<i>8.8</i>	<i>8.5</i>	
Employee Cost	1,492	1,274	17.1	1,445	5,988	5,346	12.0
<i>% of Net Sales</i>	<i>5.5</i>	<i>4.5</i>		<i>4.7</i>	<i>5.2</i>	<i>4.8</i>	
Selling, general and administrative	1,029	802	28.3	1,290	4,668	4,206	11.0
<i>% of Net Sales</i>	<i>3.8</i>	<i>2.8</i>		<i>4.2</i>	<i>4.0</i>	<i>3.7</i>	
Total Expenditure	13,192	12,548	5.1	14,760	53,190	53,359	(0.3)
<b>EBITDA</b>	<b>13,935</b>	<b>15,666</b>	<b>(11.0)</b>	<b>16,176</b>	<b>62,662</b>	<b>59,193</b>	<b>5.9</b>
<i>Margin (%)</i>	<i>51.4</i>	<i>55.5</i>		<i>52.3</i>	<i>54.1</i>	<i>52.6</i>	
Depreciation	1,734	1,345	28.9	1,671	6,745	6,107	10.4
Other income	6,093	3,811	59.9	4,225	18,765	16,930	10.8
<b>EBIT</b>	<b>18,295</b>	<b>18,131</b>	<b>0.9</b>	<b>18,730</b>	<b>74,683</b>	<b>70,016</b>	<b>6.7</b>
Interest	129	65	98	24	290	140	107.6
<b>PBT</b>	<b>18,166</b>	<b>18,066</b>	<b>0.6</b>	<b>18,706</b>	<b>74,393</b>	<b>69,877</b>	<b>6.5</b>
Extraordinary income/(expense)	-	(44)		(84)	-	(431)	
<b>PBT (After EO)</b>	<b>18,166</b>	<b>18,022</b>	<b>0.8</b>	<b>18,622</b>	<b>74,393</b>	<b>69,445</b>	<b>7.1</b>
Tax	2,353	3,073	(23.4)	4,494	13,391	14,185	(5.6)
<i>% PBT</i>	<i>13.0</i>	<i>17.1</i>		<i>24.1</i>	<i>18.0</i>	<i>20.4</i>	
<b>Reported PAT</b>	<b>15,813</b>	<b>14,949</b>	<b>5.8</b>	<b>14,128</b>	<b>61,002</b>	<b>55,260</b>	<b>10.4</b>
<b>Adjusted PAT</b>	<b>15,813</b>	<b>14,986</b>	<b>5.5</b>	<b>14,192</b>	<b>61,002</b>	<b>55,604</b>	<b>9.7</b>

Source: Company Data, PL Research

**Exhibit 2: Operating Metrics (Rs m)**

Y/e March	Q1FY13	Q1FY12	YoY gr. (%)	Q4FY12	FY13E	FY12	YoY gr. (%)
<b>Sales volume</b>							
- Refined Zinc	160,000	191,571	(16.5)	191,900	729,570	758,499	(3.8)
- Refined Lead	29,000	14,712	97.1	35,000	104,629	91,701	14.1
- Sulphuric acid	300,000	318,769	(5.9)	326,000	1,284,802	1,290,451	(0.4)
- Silver (kgs)	73,000	40,908	78.4	74,000	333,000	206,000	61.7
<b>Realisation (Rs/unit)</b>							
- Refined Zinc	113,500	107,647	5.4	110,578	107,293	108,965	(1.5)
- Refined Lead	117,931	127,207	(7.3)	118,571	112,921	124,426	(9.2)
- Sulphuric acid	2,752	3,061	(10.1)	2,800	2,704	3,095	(12.6)
- Silver (kgs)	53,151	55,758	(4.7)	55,270	53,186	59,806	(11.1)

Source: Company Data, PL Research

## Key Takeaways of the Conference Call

- **Rampura Agucha (RA) mine ore grade deteriorated:** RA ore grade deteriorated from 15.2% (Zn+Pb) in FY11 to 13.7% in FY12.
- **Sindesar Khurd (SK) mines ramped up close to capacity:** SK mines SKS mines produced 24k tonnes of mined metal during the quarter at 80% utilization. SK operated at ~110% during the March month with production of 11k tonnes. While for the whole year, SK mines produced 76k tonnes.
- **Added ~19m tonnes to Reserves and resources (R&R):** Thanks to continued exploration activity, company added net ~19.1m tonnes of metal to its R&R after depletion of 8.04m tonnes during the year. Company's total R&R stands at ~332m tonnes containing 35m tonne of Zinc-lead and 912m ounces of silver as on Q4FY12 end with over 25 years of mine life.
- **Mined metal production guided slightly higher in FY13:** Management expects lower mined metal output YoY in H1FY13 due to narrower ore body extraction at 6mtpa RA mines and so a higher cost of production (CoP) per tonne given the lower scale and fixed costs. However, management expects H2 to compensate the lower production in H1 attributed to wider ore body extraction hence lower CoP.
- **Capex guided at Rs15-20bn in FY13:** Management guided capex of Rs15-20bn in FY13 which includes spending of Rs5-6bn on RA underground mine, Rs3bn on shaft development at SK mine, Rs2.2bn on Greenfield Kayar mine, Rs3bn on sustenance capex and rest on other projects.
- **Guided flat refined zinc production in FY13:** Management guided refined zinc production to remain flat in FY13 at 759k tonnes.
- **Guided 140-150k tonnes of refined lead production in FY13:** On the back of full year benefit of 100ktpa Dariba smelter, Management expects 40-50% growth in total refined lead production at 140-150k tonnes in FY13 against 99k tonnes in FY12. However, 40k tonnes out of the total output would be produced through outsourced concentrate due to shortage of concentrate.
- **Guided ~48% growth in silver output:** Thanks to increased silver refining capacity, integrated silver output would grow by 48% at 350 tonnes in FY13.
- **Output from underground (UG) operations at RA mine to ramp-up to 2m tonnes by FY15:** Thanks to continuous increase in strip ratio from 5x in FY04 to 13x at RA mines, share of output from UG mines would grow to 2mtpa out of total 6mtpa till FY15. Mining cost in UG operations would be 5-10% lesser than open cast operations.

**Income Statement (Rs m)**

Y/e March	2011	2012	2013E	2014E
<b>Net Revenue</b>	<b>99,121</b>	<b>105,994</b>	<b>115,852</b>	<b>126,436</b>
Raw Material Expenses	—	—	—	—
Gross Profit	99,121	105,994	115,852	126,436
Employee Cost	5,108	5,346	5,988	6,587
Other Expenses	39,155	48,012	47,202	51,841
<b>EBITDA</b>	<b>54,859</b>	<b>52,635</b>	<b>62,662</b>	<b>68,008</b>
Depr. & Amortization	4,747	6,107	6,745	6,944
Net Interest	194	140	290	316
Other Income	9,719	16,499	18,765	22,143
<b>Profit before Tax</b>	<b>59,637</b>	<b>62,888</b>	<b>74,393</b>	<b>82,891</b>
Total Tax	10,591	14,185	13,391	14,920
<b>Profit after Tax</b>	<b>49,046</b>	<b>48,703</b>	<b>61,002</b>	<b>67,971</b>
Ex-Od items / Min. Int.	(386)	(765)	—	—
<b>Adj. PAT</b>	<b>49,008</b>	<b>48,605</b>	<b>61,002</b>	<b>67,971</b>
<b>Avg. Shares O/S (m)</b>	<b>4,225.3</b>	<b>4,225.3</b>	<b>4,225.3</b>	<b>4,225.3</b>
<b>EPS (Rs.)</b>	<b>11.6</b>	<b>11.5</b>	<b>14.4</b>	<b>16.1</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
C/F from Operations	42,760	44,921	51,550	56,218
C/F from Investing	(36,564)	(34,986)	(638)	(1,711)
C/F from Financing	(3,633)	(12,417)	(14,531)	(17,504)
Inc. / Dec. in Cash	2,563	(2,482)	36,381	37,004
Opening Cash	9,275	56,329	52,553	88,934
Closing Cash	11,820	53,806	88,934	125,938
FCFF	31,745	30,744	64,619	71,863
FCFE	31,144	30,744	64,619	71,863

**Key Financial Metrics**

Y/e March	2011	2012	2013E	2014E
<b>Growth</b>				
Revenue (%)	23.6	6.9	9.3	9.1
EBITDA (%)	17.5	(4.1)	19.1	8.5
PAT (%)	21.3	(0.8)	25.5	11.4
EPS (%)	21.3	(0.8)	25.5	11.4
<b>Profitability</b>				
EBITDA Margin (%)	55.3	49.7	54.1	53.8
PAT Margin (%)	49.4	45.9	52.7	53.8
RoCE (%)	24.1	19.7	21.0	20.0
RoE (%)	24.1	19.7	20.9	20.0
<b>Balance Sheet</b>				
Net Debt : Equity	(0.2)	(0.2)	(0.3)	(0.3)
Net Wrkng Cap. (days)	—	—	—	—
<b>Valuation</b>				
PER (x)	10.3	10.4	8.3	7.4
P / B (x)	2.2	1.9	1.6	1.4
EV / EBITDA (x)	8.2	8.6	6.7	5.6
EV / Sales (x)	4.5	4.3	3.6	3.0
<b>Earnings Quality</b>				
Eff. Tax Rate	17.8	22.6	18.0	18.0
Other Inc / PBT	16.6	26.7	25.2	26.7
Eff. Depr. Rate (%)	4.8	5.2	5.6	5.6
FCFE / PAT	63.5	63.3	105.9	105.7

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	225,332	268,813	315,083	365,866
Total Debt	4	4	4	4
Other Liabilities	9,447	11,088	11,832	12,661
<b>Total Liabilities</b>	<b>234,783</b>	<b>279,905</b>	<b>326,919</b>	<b>378,530</b>
Net Fixed Assets	81,294	91,178	102,183	117,239
Goodwill	—	—	—	—
Investments	93,346	126,949	126,949	126,949
Net Current Assets	60,143	61,779	97,787	134,343
<i>Cash &amp; Equivalents</i>	<i>56,329</i>	<i>52,553</i>	<i>88,934</i>	<i>125,938</i>
<i>Other Current Assets</i>	<i>19,560</i>	<i>23,551</i>	<i>23,645</i>	<i>23,783</i>
<i>Current Liabilities</i>	<i>15,747</i>	<i>14,326</i>	<i>14,792</i>	<i>15,378</i>
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>234,783</b>	<b>279,905</b>	<b>326,919</b>	<b>378,530</b>

**Quarterly Financials (Rs m)**

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
<b>Net Revenue</b>	<b>25,935</b>	<b>27,468</b>	<b>30,935</b>	<b>27,127</b>
<b>EBITDA</b>	<b>14,215</b>	<b>13,622</b>	<b>16,176</b>	<b>13,935</b>
<i>% of revenue</i>	<i>54.8</i>	<i>49.6</i>	<i>52.3</i>	<i>51.4</i>
Depr. & Amortization	1,455	1,591	1,671	1,734
Net Interest	120	87	24	129
Other Income	4,301	4,219	4,225	6,093
<b>Profit before Tax</b>	<b>16,702</b>	<b>16,099</b>	<b>18,622</b>	<b>18,166</b>
Total Tax	3,255	3,363	4,494	2,353
<b>Profit after Tax</b>	<b>13,447</b>	<b>12,736</b>	<b>14,128</b>	<b>15,813</b>
<b>Adj. PAT</b>	<b>13,639</b>	<b>12,787</b>	<b>14,192</b>	<b>15,813</b>

**Key Operating Metrics**

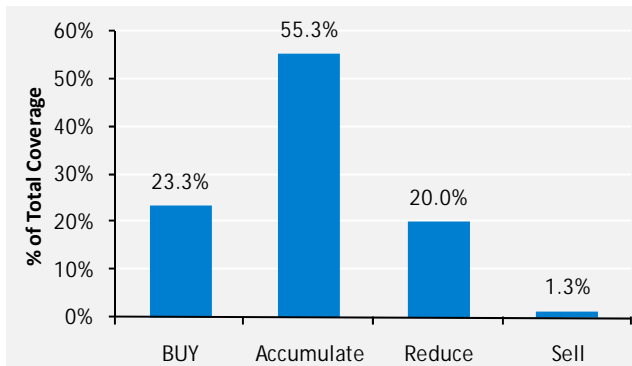
Y/e March	2011	2012	2013E	2014E
Mined Zinc metal prod-MIC tns	752,120	738,570	753,388	761,924
Mined Lead metal prod-MIC tns	87,920	91,870	111,887	129,186
Total Mines metal-MIC tns	840,040	830,440	865,275	891,110
Refined Zinc Vol. (tonnes)	712,603	758,499	729,570	773,520
Refined Lead Vol. (tonnes)	57,229	91,701	104,629	122,746
Total Refined metal-tns	769,832	850,200	834,199	896,266
Concentrate sales vol (tonnes)	104,414	10,086	34,188	—
Silver Sales Vol. (kg)	146,558	206,000	333,000	388,500
Zinc (US\$)-LME / tonne	2,186	2,098	1,900	1,948
Lead(US\$)-LME / tonne	2,245	2,269	1,951	1,965
Silver (Rs / Kg)	37,090	38,969	59,759	53,186
Cost per tonne of Mined metal (Zn+Pb)	52,691	64,253	61,472	65,567

Source: Company Data, PL Research.



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**Rating Distribution of Research Coverage**



**PL's Recommendation Nomenclature**

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

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