

Hindustan Zinc

Performance Highlights

Particulars (₹ cr)	2QFY13	2QFY12	% chg (yoy)	1QFY13	% chg (qoq)
Net sales	2,822	2,593	8.8	2,713	4.0
EBITDA	1,447	1,465	(1.2)	1,429	1.3
EBITDA margin (%)	51.3	56.5	(520)bp	52.7	(138)bp
Adjusted PAT	1,544	1,369	12.8	1,581	(2.4)

Source: Company, Angel Research

Hindustan Zinc (HZL)'s 2QFY2013 bottom-line was ahead of our expectations due to higher-than-expected other income and lower-than-expected tax rate. **We recommend Accumulate on the stock.**

Strong growth in lead and silver volumes: For 2QFY2013, HZL's net sales increased by 8.8% yoy to ₹2,822cr (above our estimate of ₹2,733cr) mainly on account of a higher lead and silver production. Lead production volumes grew by 60.0% yoy to 27kt and silver production volumes grew 86.0% yoy to 92kt due to higher production from Sindesur Khurd mine and new Dariba lead and silver capacities.

Higher cost of production dents EBITDA margin: The cost of production of zinc increased by 20.4% yoy to ₹46,750/tonne during the quarter. Hence, HZL's EBITDA margin contracted by 520bp yoy to 51.3% and the EBITDA decreased by 1.2% yoy to ₹1,447cr. Other income was higher than our estimate (+39.6% yoy to ₹540cr) while tax rate was lower than our estimate (14.9% in 2QFY2013 compared to 19.5% in 2QFY2012). Hence, the adjusted net profit was higher than our estimate of ₹1,347cr and grew by 12.8% yoy to ₹1,544cr.

Expansion projects remain on track: HZL's underground mine development work at the Rampura Agucha mine and greenfield Kayar mine development are on schedule with commercial production expected from FY2014.

Outlook and valuation: With a cash-rich balance sheet and strong production growth of lead and silver over FY2012-14, we maintain our positive stance on HZL. In spite of an expectation of a decline in realizations, increased volumes of lead and silver are expected to drive earnings growth to 14.3% in FY2013. HZL is currently trading at inexpensive valuations of 5.2x and 3.9x FY2013E and FY2014E EPS, respectively. Valuing the stock at 4.0x FY2014 EV/EBITDA, **we recommend an Accumulate view on HZL with a target price of ₹145.**

Key financials (standalone)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	10,039	11,405	12,446	13,538
% chg	25.2	13.6	9.1	8.8
Net profit	4,922	5,569	6,315	6,914
% chg	21.8	13.2	13.4	9.5
EPS (₹)	11.6	13.1	14.9	16.4
EBITDA margin (%)	55.9	53.2	52.3	52.9
P/E (x)	11.6	10.3	9.0	8.2
P/BV (x)	2.5	2.1	1.8	1.5
RoE (%)	24.1	22.4	21.4	19.7
RoCE (%)	24.2	21.2	19.4	18.1
EV/Sales (x)	4.2	3.4	2.7	2.1
EV/EBITDA (x)	7.5	6.4	5.2	3.9

Source: Company, Angel Research

ACCUMULATE

CMP	₹135
Target Price	₹145

Investment Period	12 months
-------------------	-----------

Stock Info

Sector	Base Metals
Market Cap (₹ cr)	56,957
Net Debt (₹ cr)	7,745
Beta	1.1
52 Week High / Low	150/107
Avg. Daily Volume	97,239
Face Value (₹)	2
BSE Sensex	18,792
Nifty	5,719
Reuters Code	HZNC.BO
Bloomberg Code	HZ@IN

Shareholding Pattern (%)

Promoters	64.9
MF / Banks / Indian Fls	1.9
FII / NRIs / OCBs	1.4
Indian Public / Others	31.8

Abs. (%)	3m	1yr	3yr
Sensex	9.4	10.0	8.5
Hindustan Zinc	14.1	11.2	53.7

Bhavesh Chauhan

Tel: 022- 39357800 Ext: 6821

Bhaveshu.chauhan@angelbroking.com

Vinay Rachh

Tel: 022- 39357800 Ext: 6841

Vinay.rachh@angelbroking.com

Exhibit 1: 2QFY1013 Performance (standalone)

(All values in ₹ cr)	2QFY13	2QFY12	yoy %	1QFY13	qoq %	1HFY13	1HFY12	yoy %
Net sales	2,822	2,593	8.8	2,713	4.0	5,535	5,415	2.2
Mining and manufacturing expenses	953	747	27.6	863	10.5	1,816	1,598	13.6
% of Net sales	33.8	28.8		31.8		32.8	29.5	
Mining royalty	203	215	(5.5)	204	(0.8)	407	408	(0.2)
% of Net sales	7.2	8.3		7.5		7.4	7.5	
Staff cost	155	129	19.9	149	3.7	304	256	18.5
% of Net sales	5.5	5.0		5.5		5.5	4.7	
Admin, selling and others	108	81	32.4	103	4.5	210	192	9.4
% of Net sales	3.8	3.1		3.8		3.8	3.6	
Total expenditure	1,418	1,172	21.0	1,319	7.5	2,737	2,455	11.5
% of Net sales	50.2	45.2		48.6		49.5	45.3	
Other operating income	43.2	43.3	(0.4)	35.0	23.2	78	69.1	13.3
EBIDTA	1,447	1,465	(1.2)	1,429	1.3	2,876	3,029	(5.1)
% of Net sales	51.3	56.5		52.7		52.0	55.9	
Interest	(2)	12	-	13	(116.2)	11	16	(31.7)
Depreciation	175	146	20.0	173	0.7	348	281	23.9
Other income	540	387	39.6	574	(6.0)	1,114	768	45.0
Exceptional items	-	24	-	-	-	-	28	-
Profit before tax	1,815	1,670	8.6	1,817	(0.1)	3,631	3,473	4.6
% of Net sales	64.3	64.4		67.0		65.6	64.1	
Provision for tax	271	325	(16.9)	235	15.0	506	633	(20.1)
% of PBT	14.9	19.5		13.0		13.9	18.2	
Profit after tax	1,544	1,345	14.8	1,581	(2.4)	3,125	2,840	10.1
% of Net sales	54.7	51.8		58.3		56.5	52.4	
Adjusted net profit	1,544	1,369	12.8	1,581	(2.4)	3,125	2,868	9.0

Source: Company, Angel Research

Exhibit 2: Actual vs Estimates

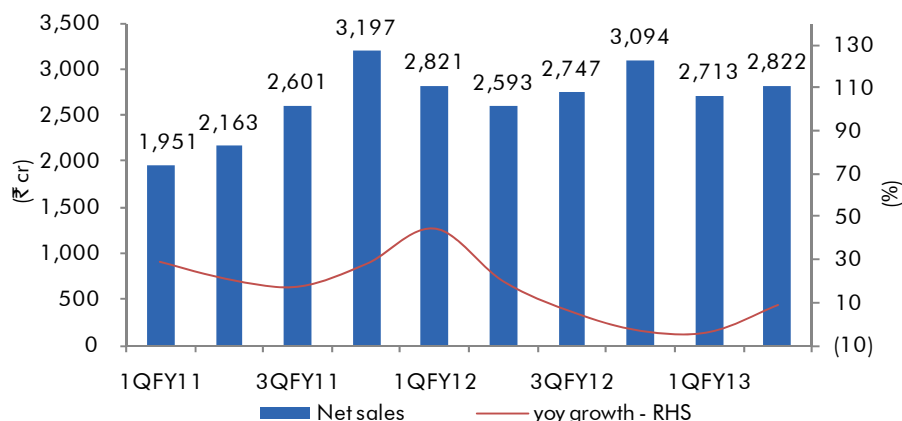
(₹ cr)	Actual	Estimates	Variation (%)
Net Sales	2,822	2,733	3.3
EBITDA	1,447	1,385	4.5
EBITDA margins (%)	51.3	50.7	59bp
Adjusted PAT	1,544	1,348	14.6

Source: Company, Angel Research

Strong growth in lead and silver volumes

For 2QFY2013, HZL's net sales increased by 8.8% yoy to ₹2,822cr (above our estimate of ₹2,733cr) mainly on account of a higher lead and silver production. Lead production volumes grew by 60.0% yoy to 27kt and silver production volumes grew 86.0% yoy to 92kt due to higher production from the Sindesar Khurd mine and from the new lead and silver capacities in Dariba. However, zinc production volumes declined by 12.0% yoy to 163kt due to lower production from Rampura Agucha mines (in line with the company's guidance).

Exhibit 3: Net sales increased by 8.8% yoy

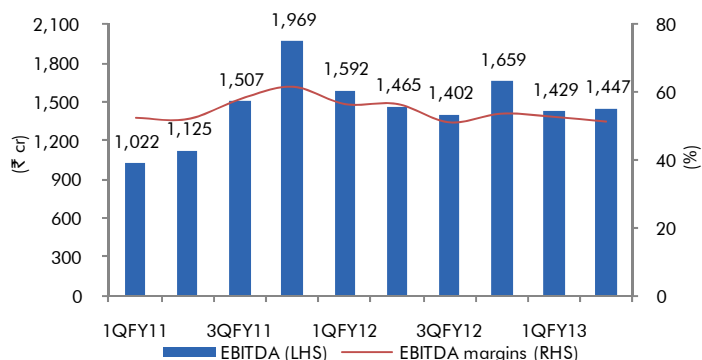


Source: Company, Angel Research

Higher cost of production dents EBITDA margin

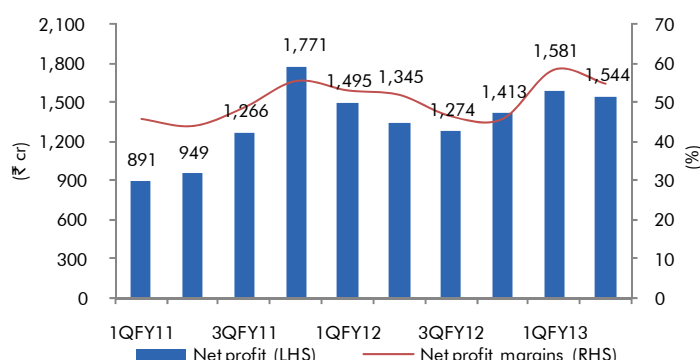
The cost of production of zinc increased by 20.4% yoy to ₹46,750/tonne during the quarter. Hence, HZL's EBITDA margin contracted by 520bp yoy to 51.3% and EBITDA decreased by 1.2% yoy to ₹1,447cr. Other income was higher than our estimate (+39.6% yoy to ₹540cr) while tax rate was lower than our estimate (14.9% in 2QFY2013 compared to 19.5% in 2QFY2012). Hence, the adjusted net profit was higher than our estimate of ₹1,347cr and grew by 12.8% yoy to ₹1,544cr.

Exhibit 4: EBITDA and EBITDA margin trend



Source: Company, Angel Research

Exhibit 5: Net Profit and Net Profit Margin trend



Source: Company, Angel Research

Expansion projects

HZL's underground mine development work at Rampura Agucha mine and greenfield Kayar mine development are on schedule with commercial production expected from FY2014. At its Kayar mine, a milestone of development ore production was achieved during the quarter.

Investment arguments

Mining in Kayar could be the next phase of growth

Since the expansion at Sindesar Khurd is complete, HZL has commenced work at its underground Kayar mine, which has 11mn tonne of high-grade reserves (10-12% zinc content). The company aims to mine 1mn tonne per year, once it is fully operational. Moreover, given the cash-rich balance sheet, HZL is actively exploring greenfield projects through 20 prospecting licenses and four mining lease projects across different states.

Current zinc prices near marginal cost of production

At the current levels of ~US\$1,900/tonne, zinc prices stand near the marginal cost of production for several zinc producers. Hence, we believe that the probability of a further decline in zinc prices from these levels remains low. Further, over the next 3-5 years, several zinc mines are expected to be exhausted; hence, production is likely to suffer. This should support zinc prices over the medium term in our view.

Outlook and Valuation

With a cash-rich balance sheet and strong production growth of lead and silver over FY2012-14, we maintain our positive stance on HZL. Although realizations are expected to decline, increased volumes of lead and silver are expected to drive earnings growth of 14.3% in FY2013. Moreover, the company is awaiting permission from the government to commence production at its Zawar mines (reserves – 72mn tonne). This could be a catalyst for the stock, although it has not been factored in our estimates currently.

HZL is currently trading at inexpensive valuations of 5.2x and 3.9x FY2013E and FY2014E EPS, respectively. Valuing the stock at 4.0x FY2014 EV/EBITDA, we recommend Accumulate on HZL with a target price of ₹145.

Exhibit 6: Key assumptions

LME prices (US\$/tonne)	FY2013E	FY2014E
Zinc	2,015	2,100
Lead	2,076	2,176
Silver (₹/kg)	48,929	43,647
Sales volume (tonnes)		
Zinc metal	720,780	764,730
Lead metal	129,500	138,750
Silver	340,000	380,000

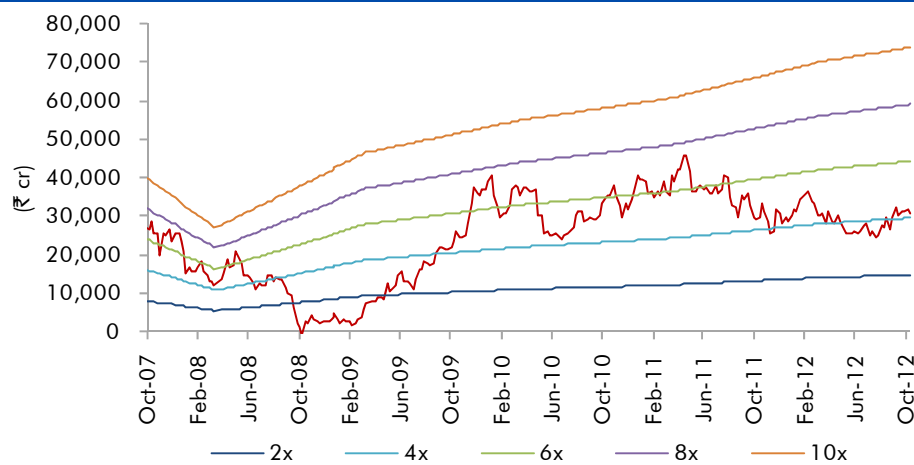
Source: Angel Research

Exhibit 7: EPS – Angel forecast vs consensus

Year (%)	Angel forecast	Bloomberg consensus	Variation (%)
FY2013E	14.9	14.3	4.7
FY2014E	16.4	15.4	6.0

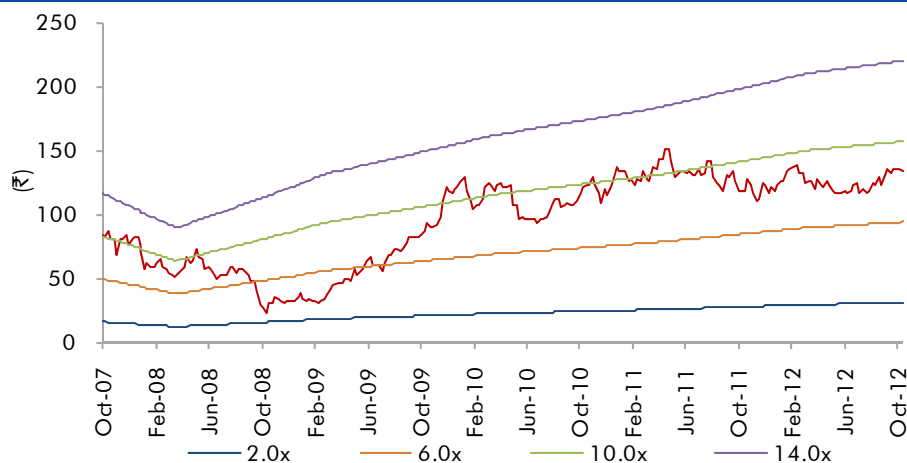
Source: Bloomberg, Angel Research

Exhibit 8: EV/EBITDA band



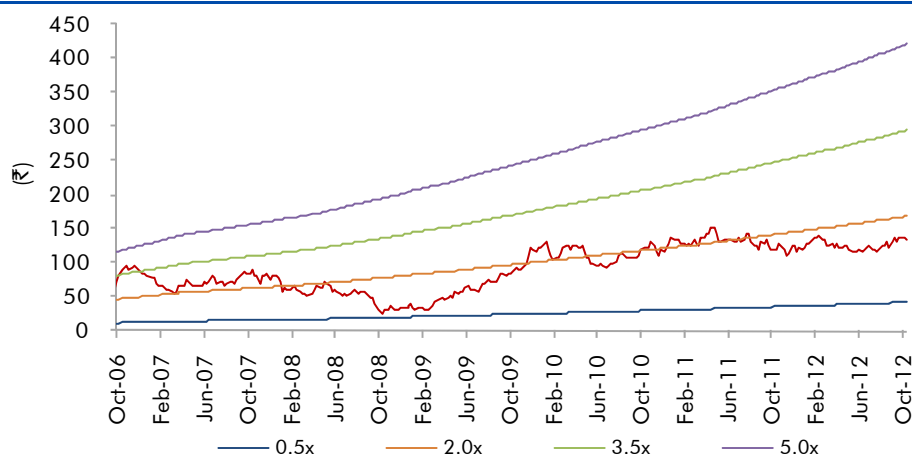
Source: Bloomberg, Angel Research

Exhibit 9: P/E band



Source: Bloomberg, Angel Research

Exhibit 10: P/BV band



Source: Bloomberg, Angel Research

Exhibit 11: Recommendation summary

Company	CMP (₹)	Target Price (₹)	Reco.	Mcap (₹ cr)	Upside (%)	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Hindalco	118	-	Neutral	22,189	-	8.9	7.3	0.7	0.6	7.5	6.3	7.8	8.9	5.4	5.7
Nalco	50	-	Neutral	12,847	-	14.6	12.2	1.1	1.0	7.5	6.3	7.4	8.4	5.7	7.1
Sterlite	101	-	Neutral	33,607	-	6.2	6.0	0.7	0.6	3.3	3.1	11.3	10.7	9.9	9.3
HZL	135	145	Accum.	54,760	7	9.0	8.2	1.8	1.5	5.2	3.9	21.4	19.7	19.4	18.1

Source: Company, Angel Research

Company background

Incorporated in 1966, HZL, a subsidiary of Sterlite Industries, is a vertically integrated company with its mining and smelting operations located mainly in Rajasthan and Andhra Pradesh. HZL's current zinc reserves stand at 34.1 mn tonne with a production capacity of 1.1 mn tonne of zinc p.a., indicating a mine life of 31 years. HZL currently operates two underground mines, namely Sindesar Khurd and Rajpura Dariba, and one open cast mine, ie the Rampura Agucha Mine.

Profit & loss statement(Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Net sales	5,680	8,017	10,039	11,405	12,446	13,538
Other operating income	-	122.0	0	0	140	154
Total operating income	5,680	8,139	10,039	11,405	12,586	13,692
% chg	(27.9)	43.3	23.3	13.6	10.4	8.8
Total expenditure	2,946	3,347	4,431	5,336	5,943	6,376
Net raw materials	1,906	1,961	14	312	249	257
Other Mfg. costs	364	613	803	838	902	1,001
Personnel	365	457	511	535	610	650
Other	311	316	3,104	3,651	3,709	3,967
EBITDA	2,734	4,792	5,608	6,069	6,643	7,316
% chg	(49.2)	75.3	17.0	8.2	9.5	10.1
(% of Net sales)	48.1	58.3	55.9	53.2	52.3	52.9
Depreciation	285	334	475	611	709	758
EBIT	2,449	4,458	5,133	5,459	5,934	6,558
% chg	(52.5)	82.0	15.1	6.3	8.7	10.5
(% of Net sales)	43.1	55.6	51.1	47.9	47.7	48.4
Interest & other charges	22	44	18	14	31	14
Other income	931	600	866	1,543	1,991	2,098
(% of PBT)	27.7	12.0	14.5	22.1	25.2	24.3
Share in profit of associates	-	-	-	-	-	-
Recurring PBT	3,358	5,014	5,981	6,988	7,894	8,643
% chg	(43.9)	49.3	19.3	16.8	13.0	9.5
Extraordinary inc/(expense)	-	-	21.2	43.1	-	-
PBT (reported)	3,358	5,014	5,960	6,945	7,894	8,643
Tax	631	973	1,059	1,419	1,579	1,729
(% of PBT)	18.8	19.4	17.8	20.4	20.0	20.0
PAT (reported)	2,728	4,041	4,900	5,526	6,315	6,914
ADJ. PAT	2,728	4,041	4,922	5,569	6,315	6,914
% chg	(38.0)	48.2	21.8	13.2	13.4	9.5
(% of Net Sales)	48.0	49.7	49.0	48.8	50.2	50.5
Basic EPS (₹)	6.5	9.6	11.6	13.1	14.9	16.4
Fully Diluted EPS (₹)	6.5	9.6	11.6	13.1	14.9	16.4
% chg	(38.0)	48.2	21.3	12.8	14.3	9.5

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

Balance sheet(Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity Share Capital	423	423	845	845	845	845
Reserves& Surplus	13,935	17,701	21,688	26,036	31,363	37,289
Shareholders' Funds	14,358	18,124	22,533	26,881	32,208	38,134
Total Loans	9	60	0.4	0.4	0.4	0.4
Deferred Tax Liability	559	711	945	1,109	1,109	1,109
Other long term liabilities			24	17	17	17
Total Liabilities	14,925	18,896	23,502	28,008	33,334	39,260
APPLICATION OF FUNDS						
Gross Block	5,856	8,241	9,879	11,658	13,858	14,858
Less: Acc. Depreciation	1,751	2,077	2,624	3,145	3,855	4,613
Net Block	4,105	6,164	7,254	8,513	10,003	10,245
Capital Work-in-Progress	1,108	1,113	595	445	145	95
Investments	6,929	10,949	9,335	12,695	12,695	12,695
Long term loans and adv.			617	628	628	628
Other Non-current assets			130	164	164	164
Current Assets	3,784	1,995	7,123	6,979	11,948	17,730
Cash	2,719	928	5,633	5,255	10,667	16,394
Loans & Advances	313	457	286	270	270	270
Other	751	611	1,204	1,454	1,012	1,066
Current liabilities	1,001	1,326	1,551	1,415	2,249	2,296
Net Current Assets	2,783	669	5,572	5,564	9,700	15,434
Total Assets	14,925	18,896	23,502	28,008	33,334	39,260

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

Cash flow statement(Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	3,358	5,014	5,960	6,945	7,894	8,643
Depreciation	286	335	475	611	709	758
Change in working capital	296	173	(239)	(61)	1,275	(7)
Less: Other income	(777)	(563)	(835)	(1,501)	-	-
Direct taxes paid	521	785	1,116	1,502	1,579	1,729
Cash flow from operations	2,642	4,173	4,244	4,492	8,300	7,666
(Inc.)/ Dec. in net fixed assets	(1,374)	(2,247)	(1,446)	(1,668)	(1,900)	(950)
(Inc.)/ Dec. in investments	(443)	(3,922)	1,870	(2,455)	-	-
(Inc.)/ Dec. in loans and adv.	71	(96)	28	38	-	-
Other income	(1,602)	2,288	(4,082)	624	-	-
Cash flow from investing	(3,348)	(3,977)	(3,631)	(3,461)	(1,900)	(950)
Inc./ (Dec.) in loans	8	43	(60)	-	-	-
Dividend paid	124	198	296	1,228	989	989
Others	22	33	8	14	-	-
Cash flow from financing	(137)	(187)	(363)	(1,242)	(989)	(989)
Inc./ (Dec.) in cash	(844)	8	250	(210)	5,411	5,727
Opening cash bal.	3,563	2,719	28	277	29	10,667
Closing cash bal.	2,719	928	277	29	10,667	16,394

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

Key ratios (Standalone)

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation ratio (x)						
P/E (on FDEPS)	20.9	14.1	11.6	10.3	9.0	8.2
P/CEPS	18.9	13.0	10.6	9.2	8.1	7.4
P/BV	4.0	3.1	2.5	2.1	1.8	1.5
Dividend yield (%)	3.0	4.4	0.5	1.8	1.5	1.5
EV/Sales	8.3	5.6	4.2	3.4	2.7	2.1
EV/EBITDA	17.3	9.7	7.5	6.4	5.2	3.9
EV/Total assets	3.2	2.4	1.8	1.4	1.0	0.7
Per share data (₹)						
EPS (Basic)	6.5	9.6	11.6	13.1	14.9	16.4
EPS (fully diluted)	6.5	9.6	11.6	13.1	14.9	16.4
Cash EPS	7.1	10.4	12.8	14.6	16.6	18.2
DPS	4.0	6.0	0.7	2.4	2.0	2.0
Book value	34.0	42.9	53.3	63.6	76.2	90.3
DuPont analysis						
EBIT margin	43.1	55.6	51.1	47.9	47.7	48.4
Tax retention ratio (%)	81.2	80.6	82.2	79.6	80.0	80.0
Asset turnover (x)	1.1	1.3	1.3	1.2	1.3	1.4
RoIC (Post-tax)	40.2	59.3	54.4	46.8	48.0	52.8
Cost of debt (post tax)	-	-	-	-	-	-
Leverage (x)	-	-	-	-	-	-
Operating RoE	40.2	59.3	54.4	46.8	48.0	52.8
Returns (%)						
RoCE (Pre-tax)	18.0	26.4	24.2	21.2	19.4	18.1
Angel RoIC (pre-tax)	58.9	88.5	74.3	62.3	61.2	66.0
RoE	20.8	24.9	24.1	22.4	21.4	19.7
Turnover ratios (x)						
Asset turnover (gross block)	1.0	1.1	1.1	1.1	1.0	0.9
Inventory (days)	35	21	28	26	26	26
Receivables (days)	11	7	8	11	8	8
Payables (days)	46	52	39	40	40	40
WC cycle (days)	30	11	11	17	9	1
Solvency ratios (x)						
Net debt to equity	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.8)
Net debt to EBITDA	(3.5)	(2.5)	(2.7)	(3.0)	(3.5)	(4.0)
Interest coverage	111.9	101.5	280.8	391.3	190.7	484.4

Note: Some of the figures from FY2011 onwards are reclassified; hence some ratios may not be comparable with previous year ratios

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement

Hindustan Zinc

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	