

# Hindustan Zinc

Estimate changes



TP change



Rating change



Bloomberg	HZ IN
Equity Shares (m)	4225
M.Cap.(INRb)/(USD\$b)	1684.6 / 20.2
52-Week Range (INR)	438 / 285
1, 6, 12 Rel. Per (%)	34/14/-3
12M Avg Val (INR M)	341

## Financials Snapshot (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Net Sales	289	333	367
EBITDA	137	183	211
PAT	78	104	124
EPS (INR)	18	25	29
GR. (%)	-26	34	19
BV/Sh (INR)	36	49	66

## Ratios

ROE (%)	55.2	58.3	51.3
RoCE (%)	42.4	53.4	51.0

## Valuations

P/E (X)	21.7	16.2	13.6
P/BV (X)	11.1	8.2	6.0
EV/EBITDA (X)	12.2	8.7	7.1
Div Yield (%)	3.8	3.0	3.0

## Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	64.9	64.9	64.9
DII	32.5	32.5	32.5
FII	0.6	0.7	0.8
Others	2.0	1.9	1.8

FII Includes depository receipts

**CMP: INR399**

**TP: INR370 (-7%)**

**Neutral**

## Performance in line; CoP to remain under control

- Hindustan Zinc's (HZ) 4QFY24 revenue stood at INR75b (down 11% YoY) vs. our est. of INR80b. The sequential revenue growth was driven by better zinc volumes, which offset lower lead & silver volumes and lower metal prices.
- EBITDA stood at INR36b (-14% YoY/+4% QoQ), in line with our est. of INR36b. EBITDA margin was flat QoQ at 48.3% (vs. our est. of 45%). EBITDA declined YoY, mainly on account of lower revenue, which was partly offset by cost improvement.
- The CoP stood at USD1,051/t (INR87,284), the lowest in the last 11 quarters and the fifth consecutive quarter of improvement. Cost improvement was driven by better grades and lower coal and input prices.
- In 4QFY24, APAT stood at INR20b (-21% YoY/flat QoQ) and was in line with our est. of INR19.4b. Full-year APAT stood at INR77b (-26% YoY).
- Mined metal volume in 4QFY24 stood at 299kt (-1% YoY/+10% QoQ), driven by higher ore production across mines and improved mined metal grades.
- Refined zinc volume stood at 220kt (+2% YoY/+8% QoQ) and refined lead volume was 52kt (-4% YoY/-7% QoQ). Silver volume came in at 189t (+4% YoY/-4% QoQ) in 4QFY24.
- For FY24, mined metal volumes increased by 2% YoY to 1079kt. Refined zinc volume was flat YoY at 817kt, while lead volume grew 2% YoY to 216kt.

## Operational guidance for FY25

- For FY25, the management expects mined metal production of 1,100-1,125kt and refined metal production of 1,075-1,100 kt.
- Silver production is expected to be around 750-775mt.
- Domestic zinc demand is likely to remain strong, driven by the govt.'s focus on infrastructure development and manufacturing output.
- The management expects zinc's cost of production to be at USD1,050-1,100/t in FY25. For FY25, capex is pegged at USD270-325m.
- Once the alloy facility is operational, it will increase the total VAP to 25% from the current 18-20%.

## Valuation and view

- The performance has been largely in line with our estimates. The company continues to focus on improving production with tight cost control. To account for lower CoP ahead and an improved demand outlook, we have increased our FY25/FY26 EBITDA estimates by 11%/10%.
- HZ currently trades at 7x FY26E EV/EBITDA and we believe all positive factors are priced in at the current levels. We reiterate our Neutral rating on the stock with a revised TP of INR370 (premised on 6.5x FY26E EV/EBITDA).

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## Quarterly Performance

INR b

Y/E March	FY23				FY24				FY23	FY24	FY24	Vs. Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		4QE	%	
Mine prodn. (kt)	252	255	257	301	257	252	271	299	1,062	1,079		
<b>Sales</b>												
Zinc refined (kt)	206	189	210	216	208	185	203	221	821	817	221	
Lead refined (kt)	54	57	46	54	50	57	56	53	211	216	53	
Silver (tonnes)	177	194	161	182	179	181	197	179	714	736	189	
<b>Net Sales</b>	<b>94</b>	<b>83</b>	<b>79</b>	<b>85</b>	<b>73</b>	<b>68</b>	<b>73</b>	<b>75</b>	<b>341</b>	<b>289</b>	80	(5)
Change (YoY %)	43.7	36.2	-1.6	-3.3	-22.4	-18.5	-7.1	-11.3	15.8	-15.2		
Change (QoQ %)	6.7	-11.2	-5.6	8.2	-14.4	-6.7	7.6	3.3				
<b>EBITDA</b>	<b>51</b>	<b>44</b>	<b>37</b>	<b>43</b>	<b>33</b>	<b>31</b>	<b>35</b>	<b>36</b>	<b>175</b>	<b>137</b>	36	2
Change (YoY %)	44.4	32.1	-15.2	-14.2	-34.8	-28.8	-5.0	-14.2	7.9	-22.0		
Change (QoQ %)	3.5	-14.2	-15.9	14.8	-21.3	-6.2	12.2	3.6				
As % of Net Sales	54.7	52.9	47.1	50.0	46.0	46.2	48.2	48.3	51.3	47.2		
Finance cost	0	1	1	2	2	2	2	3	3	10	3	(5)
DD&A	7	8	8	9	8	8	9	9	33	35	10	(2)
Other Income	3	4	3	4	3	2	3	3	14	11	2	15
<b>PBT (before EO item)</b>	<b>47</b>	<b>39</b>	<b>32</b>	<b>35</b>	<b>26</b>	<b>23</b>	<b>27</b>	<b>27</b>	<b>153</b>	<b>103</b>	26	5
EO exp. (income)	0	0	0	0	0	0	0	0	0	0		
<b>PBT</b>	<b>47</b>	<b>39</b>	<b>32</b>	<b>35</b>	<b>26</b>	<b>23</b>	<b>27</b>	<b>27</b>	<b>153</b>	<b>103</b>	26	5
Total Tax	16	12	10	9	6	6	6	7	48	25	7	5
% Tax	33.8	31.7	32.3	26.3	24.8	25.0	24.0	25.2	31.2	24.7		
<b>Reported PAT</b>	<b>31</b>	<b>27</b>	<b>22</b>	<b>26</b>	<b>20</b>	<b>17</b>	<b>20</b>	<b>20</b>	<b>105</b>	<b>78</b>	19	5
<b>Adjusted PAT</b>	<b>31</b>	<b>27</b>	<b>22</b>	<b>26</b>	<b>20</b>	<b>17</b>	<b>20</b>	<b>20</b>	<b>105</b>	<b>78</b>	19	5
Change (YoY %)	55.9	32.9	-20.2	-11.8	-36.5	-35.5	-5.9	-21.1	9.2	-26.2		
Change (QoQ %)	5.6	-13.3	-19.6	19.8	-24.0	-12.0	17.3	0.5				



## Highlights from the management commentary

### Guidance on volume/CoP

- Better capacity utilization and the ramp-up of a newly commissioned project will drive production volume compared to last year for both mined metal and refined metal for FY25.
- For FY25, the management guided that the mined metal production would range around 1,100-1,125kt and refined metal production around 1,075-1,100 kt.
- Similarly, it expects saleable silver production to be around 750-775mt.
- The management expects domestic zinc demand to remain strong owing to the government's efforts to upgrade India's infrastructure and manufacturing output in the election year and impressive automobile sales.
- The decline in CoP in 4QFY24 was largely on account of better grades, softened coal and input commodity prices, and better linkage coal availability partly offset by lower acid realization.
- The management guided the zinc cost of production (CoP) to be at USD1,050-1,100/t for FY25.
- The company has received all the approvals for operating the Bamnia Kalan mines and it is in process of finalizing the business partner to start the site activities.

**Capex**

- For FY25, the management expects capex of USD270-325mn.
- The 160kt roaster at Debari is progressing as per timelines and is expected to be commissioned by 4QFY25. Once the roaster is operational, it will help HZ achieve refined metal capacity of 1.2mt. HZ also plans to scale up smelters to the designed capacity of 1,123 ktpa.
- 510kt of DAP/NPK fertilizer plant at Chanderiya is progressing as per timelines and will be commissioned by FY26, which is expected to generate EBITDA of INR3.5-4b.

**Silver demand**

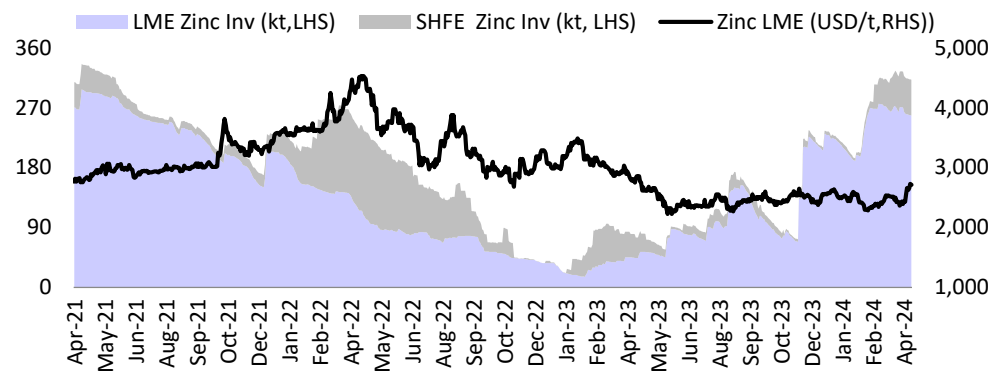
- The demand outlook for silver is robust.
- Industrial silver demand is expected to increase significantly on the back of higher investments in photovoltaics, power grid, 5G networks, consumer electronics and automobiles.
- Since FY14, HZ has increased its ranking in global silver leadership from No. 23 to the third-largest producer globally.

**Other developments**

- The proposed demerger of HZ's corporate structure to unlock value by establishing distinct legal entities for zinc & lead, silver, and recycling business units is currently in an advanced stage of discussion by the board, and the company will arrive at a decision soon.
- At the end of FY24, the company's total R&R stood at 456.3MT, with a total metal content of 30.8MT with an overall mine life of over 25 years.
- Demand for zinc remains robust, driven by strong infrastructure push from countries such as India, Vietnam and Mexico.
- Demand for lead is expected to remain strong, driven by higher demand from the automobile segment.
- HZ entered into power delivery agreements with Serentica Renewable India Private for Dariba 200MW and Chanderiya 250MW.

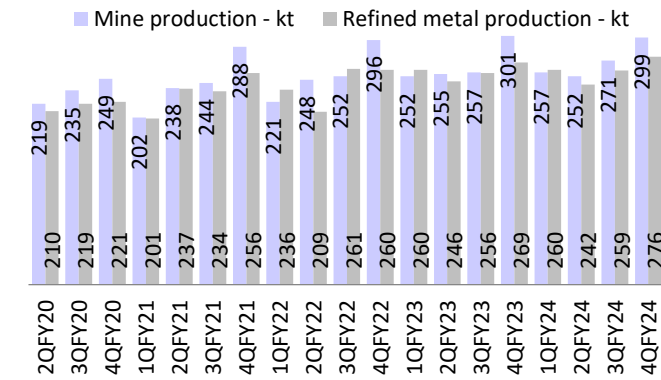
Story in charts

Exhibit 1: LME Zinc inventory as on date has increased to over 250kt



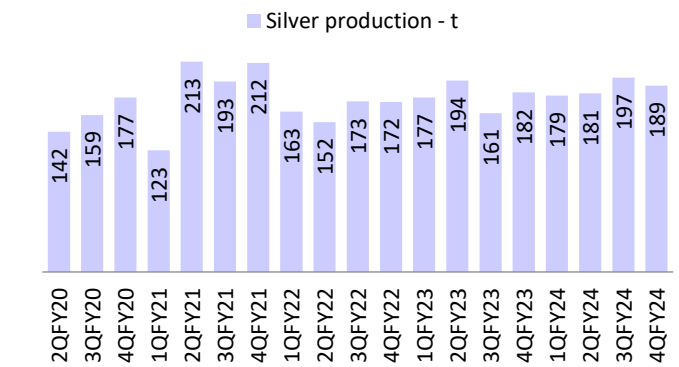
Source: MOFSL, Bloomberg

Exhibit 2: Mine production and refined metal production (QoQ)



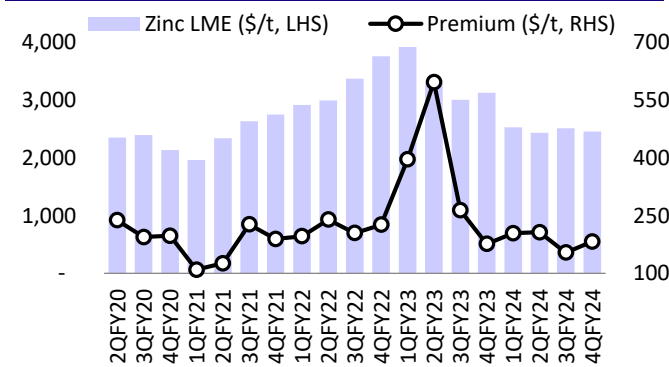
Source: MOFSL, Company

Exhibit 3: Silver production (t) was up 4% YoY at 189t



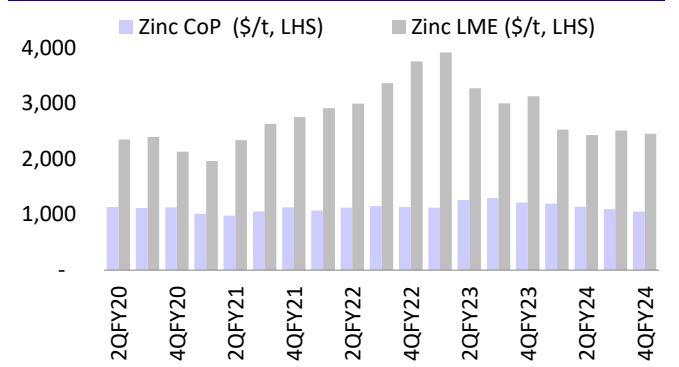
Source: MOFSL, Company

Exhibit 4: Premium rebounded to USD183/t in 4Q



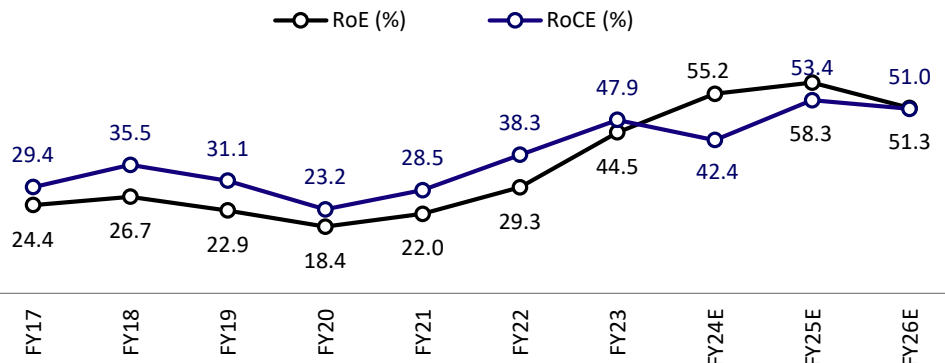
Source: MOFSL, Company

Exhibit 5: CoP eased by USD44/t QoQ and USD242/t over the last five quarters



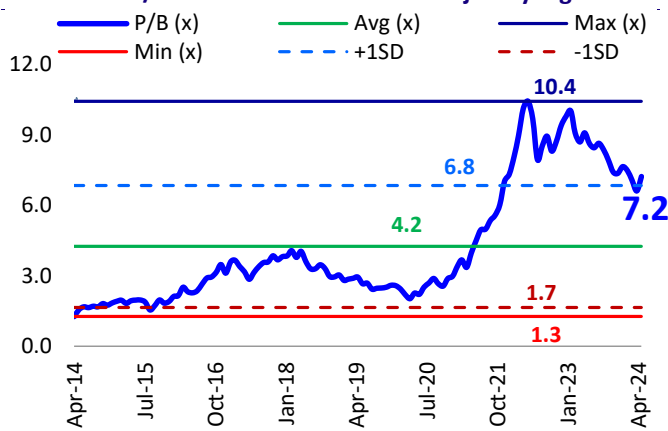
Source: MOFSL, Company

**Exhibit 6: ROE (%) and ROCE (%)**



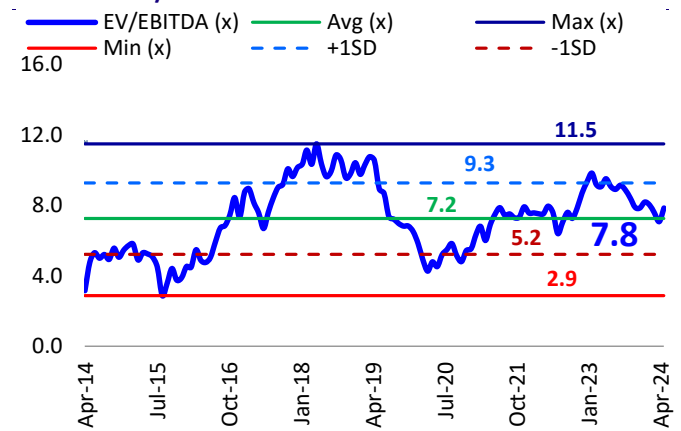
Source: Company, MOFSL

**Exhibit 7: P/B ratio at elevated levels to justify high RoE**



Source: MOFSL

**Exhibit 8: EV/EBITDA remains around LTA**



Source: MOFSL

**Exhibit 9: Changes to our assumptions and key financials**

		FY25E			FY26E		
		New	Old	% change	New	Old	% change
<b>Sales Volume Assumptions</b>							
Refined Zinc	kt	843	834	1%	856	844	1%
Refined Lead	kt	211	209	1%	214	211	1%
Silver	T	764	724	6%	776	732	6%
<b>Financial Estimates</b>							
Revenue	INR b	333	326	2%	367	357	3%
EBITDA	"	183	164	11%	211	191	10%
Adj PAT	"	104	95	10%	124	112	10%
EPS	INR/sh	25	22	10%	29	27	10%

Source: MOFSL, Company

**Exhibit 10: Valuation**

Valuation	UoM	FY26E
<b>EBITDA</b>	<b>INR b</b>	<b>211</b>
EV/EBITDA Multiple	x	6.5
Enterprise Value	INR b	1,370
Net Cash	INR b	177
<b>Equity value</b>	<b>INR b</b>	<b>1,546</b>
Shares outstanding	bn	4.23
<b>Target price (INR/sh; rounded-off)</b>	<b>INR/sh</b>	<b>370</b>

Source: MOFSL

## Financials and Valuation

### Income Statement

(INR Billion)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Net Sales</b>	<b>186</b>	<b>226</b>	<b>294</b>	<b>341</b>	<b>289</b>	<b>333</b>	<b>367</b>
change%	(12.1)	21.9	30.1	15.8	(15.2)	15.2	10.0
Total Expense	97	110	132	166	153	150	156
<b>EBITDA</b>	<b>88</b>	<b>117</b>	<b>162</b>	<b>175</b>	<b>137</b>	<b>183</b>	<b>211</b>
EBITDA Margin%	47.7	51.6	55.1	51.3	47.2	54.8	57.5
Depreciation	23	25	29	33	35	38	40
EBIT	66	91	133	142	<b>102</b>	<b>145</b>	<b>171</b>
Interest and finance charge	1	4	3	3	10	9	8
other income	19	18	12	14	11	9	10
<b>PBT Before EO</b>	<b>84</b>	<b>106</b>	<b>142</b>	<b>153</b>	<b>103</b>	<b>145</b>	<b>172</b>
<b>PBT after EO</b>	<b>84</b>	<b>106</b>	<b>141</b>	<b>153</b>	<b>103</b>	<b>145</b>	<b>172</b>
Total Tax	16	26	45	48	25	40	48
<b>Reported PAT</b>	<b>68</b>	<b>80</b>	<b>96</b>	<b>105</b>	<b>78</b>	<b>104</b>	<b>124</b>
<b>Adjusted PAT</b>	<b>68</b>	<b>80</b>	<b>98</b>	<b>105</b>	<b>78</b>	<b>104</b>	<b>124</b>
change%	(14.5)	17.3	22.3	7.7	(26.2)	34.2	19.2
margin%	0.4	0.4	0.3	0.3	26.8	31.2	33.8

E: MOFSL estimates

### Balance Sheet

(INR Million)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	8	8	8	8	8	8	8
Total Reserves	395	315	334	121	144	197	270
<b>Networth</b>	<b>403</b>	<b>323</b>	<b>343</b>	<b>129</b>	<b>152</b>	<b>205</b>	<b>279</b>
Other Liability + Def Tax Liabilities	(18)	(11)	9	23	23	27	32
Total Loans	6	65	28	119	85	83	81
<b>Capital Employed</b>	<b>391</b>	<b>377</b>	<b>381</b>	<b>271</b>	<b>261</b>	<b>316</b>	<b>392</b>
Gross Block	272	323	354	382	410	435	459
Less: Accum Dep	107	155	180	206	229	266	306
<b>Fixed Asset (Net Block)</b>	<b>165</b>	<b>168</b>	<b>174</b>	<b>176</b>	<b>182</b>	<b>169</b>	<b>153</b>
CWIP	25	19	21	22	17	17	17
<b>Curr. Assets Loans &amp; Advances</b>	<b>262</b>	<b>259</b>	<b>252</b>	<b>156</b>	<b>140</b>	<b>208</b>	<b>302</b>
Inventory	18	14	20	19	19	18	20
Account Receivables	4	4	7	4	2	5	5
Cash and Bank	222	223	208	113	100	166	258
Loans and Advances	17	18	17	21	19	19	19
<b>Current Liab and Provision</b>	<b>61</b>	<b>69</b>	<b>66</b>	<b>84</b>	<b>78</b>	<b>78</b>	<b>80</b>
Account Payables	15	15	20	21	21	20	22
Other current liabilities	46	54	46	63	57	57	57
<b>Net Current Assets</b>	<b>201</b>	<b>190</b>	<b>186</b>	<b>72</b>	<b>62</b>	<b>130</b>	<b>222</b>
<b>Application of Funds</b>	<b>391</b>	<b>377</b>	<b>381</b>	<b>271</b>	<b>261</b>	<b>316</b>	<b>392</b>

E: MOFSL estimates

## Financials and Valuation

<b>Ratios</b>							
<b>Y/E March</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>
<b>Basic (INR)</b>							
<b>EPS</b>	<b>16.1</b>	<b>18.9</b>	<b>23.1</b>	<b>24.9</b>	<b>18.4</b>	<b>24.6</b>	<b>29.4</b>
Cash EPS	21.5	24.9	30.0	32.6	26.6	33.5	38.8
Book Value	95.4	76.5	81.1	30.6	36.0	48.6	66.0
DPS	16.5	21.3	18.0	75.5	15.0	12.0	12.0
Payout (incl. div. text)	122.9	112.7	77.9	303.5	81.7	48.7	40.9
<b>Valuation (X)</b>							
P/E	19.6	16.7	13.6	12.7	21.7	16.2	13.6
Cash P/E	14.7	12.7	10.5	9.7	15.0	11.9	10.3
Price/ Book Value	3.3	4.1	3.9	10.3	11.1	8.2	6.0
EV/Sales	6.0	5.2	3.9	3.9	5.8	4.8	4.1
EV/EBITDA	12.6	10.0	7.1	7.6	12.2	8.7	7.1
Div Yield (%)	5.2	6.8	5.7	24.0	3.8	3.0	3.0
<b>Profitability Ratios (%)</b>							
ROE%	18.4	22.0	29.3	44.5	55.2	58.3	51.3
ROCE%	23.2	28.5	38.3	47.9	42.4	53.4	51.0
<b>Turnover Ratios (%)</b>							
Debtors (No.of days)	8	7	9	4	5	5	5
Inventory (No. of days)	36	23	24	20	20	20	20
Creditors (No. of days)	29	25	25	22	22	22	22
<b>Leverage Ratios (%)</b>							
Net Debt/ Equity (x)	(0.5)	(0.5)	(0.5)	0.0	(0.1)	(0.4)	(0.6)

E: MOFSL estimates

<b>Cash Flow Statement</b>							<b>(INR Million)</b>	
<b>Y/E March</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	
Adj EBITDA	88	117	162	175	137	183	211	
Non Cash Op. Exp (Inc)	0	0	1	2	16	-	-	
(Inc)/Dec in Wkg Cap	(11)	6	(12)	6	(2)	(3)	(0)	
Tax Paid	(11)	(18)	(24)	(31)	(18)	(36)	(43)	
<b>CF. From Op Activity</b>	<b>66</b>	<b>106</b>	<b>127</b>	<b>151</b>	<b>133</b>	<b>144</b>	<b>167</b>	
(Inc)/Dec in FA & CWIP	(36)	(24)	(30)	(35)	(40)	(25)	(24)	
<b>Free Cashflows</b>	<b>30</b>	<b>81</b>	<b>97</b>	<b>116</b>	<b>93</b>	<b>119</b>	<b>143</b>	
Interest & Dividend Income	5	15	9	14	11	9	10	
others	5	(15)	29	87	(5)	-	-	
<b>CF. From Inv Activity</b>	<b>(26)</b>	<b>(24)</b>	<b>8</b>	<b>66</b>	<b>(34)</b>	<b>(16)</b>	<b>(14)</b>	
(Inc)/dec in Debt	(19)	65	(43)	90	(34)	(2)	(2)	
Interest Paid	(2)	(2)	(3)	(3)	(10)	(9)	(8)	
Dividend Paid (Incl.tax)	-	(160)	(76)	(319)	(63)	(51)	(51)	
Others	0	0	0	0	8	-	-	
<b>CF. From Fin Activity</b>	<b>(21)</b>	<b>(97)</b>	<b>(123)</b>	<b>(232)</b>	<b>(99)</b>	<b>(62)</b>	<b>(61)</b>	
<b>(Inc)/dec in cash</b>	<b>19</b>	<b>(16)</b>	<b>13</b>	<b>(15)</b>	<b>(0)</b>	<b>65</b>	<b>92</b>	
Add: Opening cash balance	0	19	3	16	1	1	66	
Adjustments	0	0	0	0	-	-	-	
Closing cash balance	19	3	16	1	1	66	158	
Bank balance and current investments	204	220	192	112	100	100	100	
<b>Closing Balance</b>	<b>222</b>	<b>223</b>	<b>208</b>	<b>113</b>	<b>100</b>	<b>166</b>	<b>258</b>	

E: MOFSL estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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